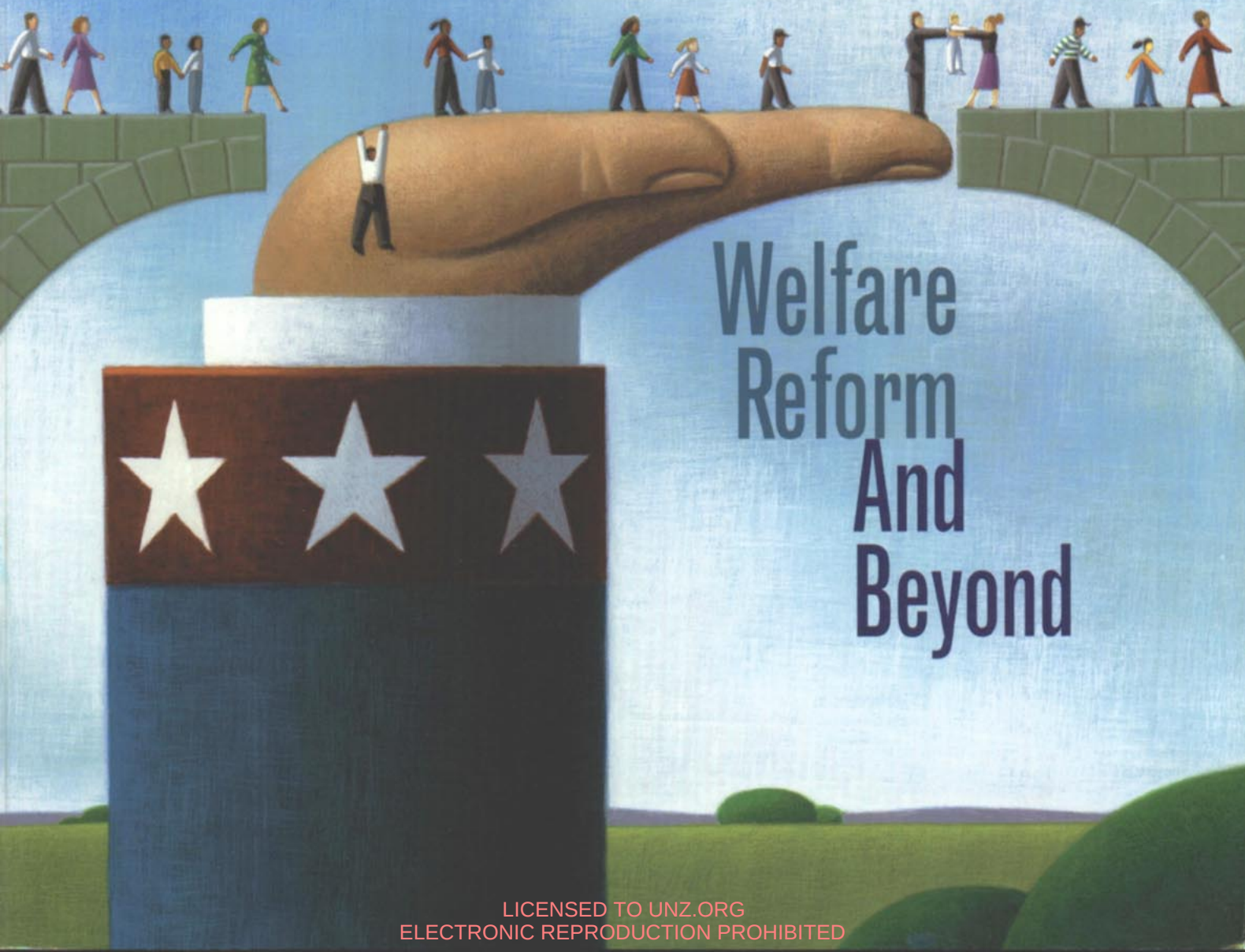


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Welfare Reform And Beyond

When the State Kills

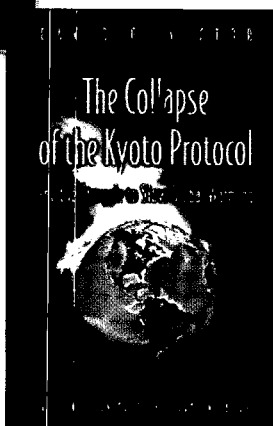
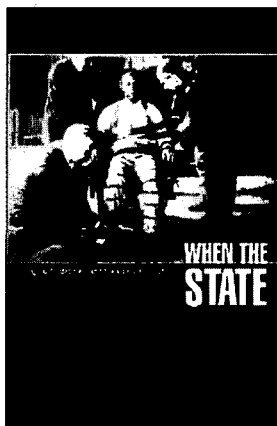
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BY SCOTT ROBERTS

Welfare Reform's

It is gratifying to see all the attention that welfare reform reauthorization is already receiving, more than a year before the deadline arrives. The 1996 debate, although a little harsh at times, was good for the nation in that both conservatives and liberals had the opportunity to formulate and defend their views on how best to proceed—and the result was the most sweeping social change in America in more than half a century.

Before 1996, the nation had generous social policies by which we tried to meet the needs of poor families by giving them entitlements, especially cash, Medicaid, and food stamps. But after several decades of unrelenting giving, marriage had virtually disappeared in many communities, and participation in the workforce by poor and low-income adults was unacceptably low.

With Wisconsin and other states leading the way, the nation's cash welfare program began to undergo a revolution. Specifically, the idea of entitlement to cash was replaced with the concept of mutual obligation. While Americans always have been and always will be willing to help the poor, they also recognize that those who can work must help themselves.

The revolutionary reforms of 1996 simply codified what most states were already doing—creating a much more demanding welfare system in which the poor are expected and, when necessary, required to work.

We in Wisconsin are widely recognized as the pioneers of welfare reform.

Our monthly caseload dropped by more than 93 percent between January 1987 and January of this year. We ended welfare and the Aid to Families with Dependent Children entitlement check altogether in 1997 and replaced it with a new work-based program called Wisconsin Works, better

known as W-2. This program, signed into law on April 25, 1996, is now the standard for welfare reform in America.

W-2 is an employment program rather than a welfare program. It requires those “who can work to get a job and those who cannot to contribute according to their abilities.” No longer are parents paid for having additional children. The state focuses its efforts on helping parents find jobs and, once they are employed, climb the job ladder until they are ultimately self-sufficient.

And families are better off under W-2. A mother of three, working full time at the minimum wage, brings in an income package that lifts her family above the federal poverty level. Former AFDC recipients are getting paid an average of \$7.42 an hour in their first jobs—more than \$2 above the minimum wage.

But there's more to the story about welfare. As early as the 1970s, Congress began to work quietly on providing benefits to working-poor and low-income families. By the time the welfare reform legislation was signed in 1996, low-income working families with children could receive cash income supplements of up to \$3,600 through the earned income tax credit, as well as Medicaid coverage for themselves and their children, child care assistance, food stamp benefits, and a host of other income supplements. These work supports converted \$10,000-a-year jobs into family incomes of \$16,000 or more.

The joint impact of the 1996 reforms and the expanded work-support system has transformed the nation's cash welfare program. Now the rolls have been reduced by more than half, employment of single mothers—especially those who were previously the most likely to stay for long periods on welfare—is at an all-time high, and child poverty is lower than it has been since 1979. Child poverty has declined twice as much during the latest economic expansion as it did during that of the 1980s.



Tommy G. Thompson, former governor of Wisconsin, is secretary of the Department of Health and Human Services.

xt Step

These are great successes, but we cannot—and will not—rest on our achievements so far. As the October 1, 2002, reauthorization deadline approaches, I fully expect that we will have another rousing debate as we work to take welfare reform to the next step in the new century. Of the many issues that should receive careful attention during the reauthorization debate, four stand out.

First, many states need to complete the welfare transformation by expanding their work experience programs. Nearly everyone on the cash welfare caseload should be working or combining work and training. Above all, we should not allow caseload reduction to preempt the need to establish good work experience programs. The new Temporary Assistance for Needy Families (TANF) program aims to help prepare every family for work, not 40 percent or 50 percent of families.

A second important issue is strengthening families. As Mickey Kaus wisely argues elsewhere in this issue the main goal of welfare reform is to transform the culture of poverty. The nation has clearly had major success in rolling back the culture of not working, but the incidence of single-parent families, especially those formed by births outside of marriage, is still too high. Even worse, married-couple families have virtually disappeared in many communities, especially in big cities.

States are beginning to develop programs to discourage births outside of marriage, but the programs need to be expanded. Also, state and local governments, working with faith-based and other private-sector and community-based programs, must aggressively develop programs that promote and reward marriage. At the federal level, more research is needed to identify programs that

can reduce such births and promote marriage. Both the federal government and the states must do more to help poor fathers play a more active role in their children's lives and to increase their employment and wages.

Third, many of us have been surprised by the drop in food stamp and Medicaid receipt by families leaving welfare. The major problem does not appear to be in the federal statutes, as these families are still entitled to both benefits when they leave welfare. We should thoroughly investigate this problem, but it seems likely that most of the solutions will be found at the state and local level. Our experience in Wisconsin, however, suggests that one federal problem may be the food stamp quality-control system. Because cases in which adults work are more likely to have errors and to result in fines against states, the administrative signals in the food stamp program are at odds with those in the TANF program. This problem, as well as issues of state outreach in both the food stamp and Medicaid programs, should receive careful scrutiny during the reauthorization debate.

Finally, too many families are either languishing on welfare rolls or have left welfare but are not working. Most of these families have several barriers to employment, such as low education or work experience, drug or alcohol addictions, transportation problems, or insufficient access to child care. In Wisconsin, we worked to help our families overcome these barriers through training, transportation aids, and assistance with child care. Barriers must not become excuses—either for government or for former welfare recipients, especially if we can work together to improve matters and move more people to the workforce.

These and a host of other issues are discussed in more detail in this issue of the *Brookings Review*. Thanks in large part to the Brookings Institution, especially its Welfare Reform & Beyond project, and to other think tanks, scholars, child advocates, and analysts in congressional and administrative agencies, we already are formulating a clear picture of the successes of the 1996 reforms. All who will participate in the debate and policymaking, as well as interested citizens, should carefully study the abundant information on welfare reform. I know of no better place to start than with this issue of the *Brookings Review*. ■

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*Design and art direction by
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Printed in U.S.A.

*Subscriptions: one year \$17.95
(\$24.95 foreign); two years \$32.95
(\$46.95 foreign); three years \$47.95
(\$68.95 foreign). (800) 275-1447;
(202) 797-6258*

Postmaster, send address changes to:

*Brookings Review,
1775 Massachusetts Ave., N.W.,
Washington, D.C. 20036*

*Second-class postage paid
at Washington, D.C.
USPS I.D. No. 010-099;
Publication No. 551640.*

Reprint permissions: (202) 797-2483

*U.S. newsstand distribution by:
Ingram Periodicals Inc.
1240 Heil Quaker Blvd.
La Vergne, Tenn. 37086
(800) 627-6247 (ext. 4500)*

*Brookings Review
(ISSN 0745-1253) is published
quarterly by the
Brookings Institution Press.*

*Visit Brookings online at:
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From Welfare to

BY ISABEL SAWHILL

In 1996 Congress reformed a welfare system that was deeply unpopular with the American public. Although Republicans pushed hard for reform, many Democrats—led by former President Bill Clinton—went along, and in the end both parties took credit for the new law. The system was transformed from one that handed out cash to one that required work and penalized with a loss of benefits those who failed to comply with the requirement. What had been called Aid to Families with Dependent Children (AFDC) became Temporary Assistance for Needy Families (TANF). The use of the word “temporary” was noteworthy. Welfare was to be a way station, not a way of life.

Although most politicians supported these changes, many scholars and advocates for the poor complained that the new law was a voyage into uncharted waters—an experiment with the lives of some of the nation’s most vulnerable citizens and their children. Noncitizens who were legal residents of the United States were dealt an even bigger blow, as they and their children lost many benefits previously available to them. In this special issue of the *Brookings Review*, our contributors assess the results of the experiment to date and reflect on next steps, including what modifications may be needed when Congress reauthorizes the law in 2002 and what directions all this suggests for antipoverty policy in the United States. This introductory essay builds on their insights but contains my own assessment as well.

Is Welfare Reform Working?

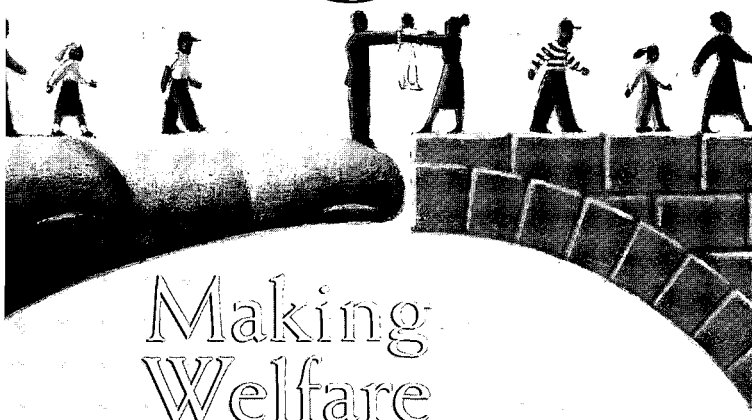
Not surprisingly, the answer to the question of whether welfare reform is working depends on whom you ask. That said, even the law’s critics point to at least some successes while its supporters acknowledge some limitations.

All our contributors agree that caseloads have declined far more than expected (from 5 million families in 1994 to 2.2 million in June 2000), that about 60 percent of those who have left welfare are working, that employment rates among single mothers have increased dramatically, and that child poverty has declined. They also agree that a substantial minority of mothers who have left the rolls are not working and that many of those who remain on the rolls may have difficulty finding or keeping

Isabel Sawhill is a senior fellow in the Brookings Economic Studies program and a co-director of the Brookings Welfare Reform & Beyond Initiative.



re Work



Making
Welfare
a Way
Station,
Not a
Way
of Life

jobs because of poor schooling, substance abuse, depression, or other barriers to employment. Finally, those who are working tend to earn low wages (about \$7.00 an hour on average) making it hard for them to support their families.

Another concern, noted by Wendell Primus, Mark Greenberg, and Tom Downey in particular, is that the poverty rate has not fallen as much as the caseload. Fewer poor children are receiving assistance. In addition, the incomes of the poorest one-fifth of single-parent families have continued to fall, many families remain in deep poverty, and according to some reports, requests for emergency assistance have grown. Overall, 700,000 families were significantly worse off in 1999 than their counterparts in 1995.

Because welfare reform was implemented during an unprecedented economic expansion, questions also must be raised about how much of the good news should be attributed to the 1996 law and how much to a strong economy or to the growth of other programs such as the earned income tax credit (EITC) over this same period. Research on this question doesn't permit firm answers, but almost everyone agrees that all three have been important. In his essay, Ron Haskins compares the 1990s with the 1980s, when employment also expanded strongly but without comparable declines in caseloads. The data he cites suggest that welfare reform played an important, and probably a critical, role.

Still, many people remain uneasy about what will happen should the economy sink into a prolonged recession. An economic downturn would not only swell the caseload, according to this view, but strain state budgets, perhaps forcing some states to cut benefits. At a minimum, states would likely reduce spending on an array of supportive services for those making the transition from welfare to work and for other low-income families.

Mickey Kaus considers the longer-term implications of welfare reform. He notes that reform was at least partially motivated by a view that the old system of no-strings entitlements had encouraged the growth of an urban underclass, characterized by idleness and out-of-wedlock childbearing. For many, dismantling this system is the key to reconnecting an isolated and stigmatized group of the poor to work and marriage. Even if the short-term result were to make this group worse off, Kaus argues, these longer-term goals should be pursued. The major purpose of the 1996 law, after all, was not to end poverty or improve material well-being, but to end dependency and encourage the formation of stable two-parent, married families. Although the family formation goals have not yet been achieved, some signs are encouraging. Teen pregnancy and birth rates have plummeted, and the proportion of children born outside marriage has leveled off. Lack of more definitive progress in family formation should not be surprising, for such cultural changes are deep-seated and likely to be decades in the making. In the meantime, the dramatic increase in employment among never-married mothers has had one unintended consequence: by creating greater sympathy for their lives, it has made new supports for this group politically feasible and thereby transformed the debate about poverty. No longer is the debate primarily about how much cash assistance and support services

SCOTT ROBERTS

to provide to mothers who stay home with their children; it is about how much assistance to give them once they are working to support these same children.

One important feature of the new law was the enormous discretion it gave the states. Several contributors (Richard Nathan and Tom Gais, Mark Greenberg, and Bruce Katz and Katherine Allen) address the question of devolution and how welfare reform has played out differently in various parts of the country. Most states have embraced the goal of getting recipients into jobs as quickly as possible, a strategy that appears more cost-effective than providing substantial up-front education and training. But it is also a strategy dictated in large measure by federal rules that require states to place an increasing fraction of their caseloads in jobs and that reward them for doing so by freeing up funds for other, related purposes. Many states also supplement the limited earnings of those moving into jobs by allowing them to keep a portion of their welfare check. And as Gordon Berlin notes, these efforts to make work pay, although more costly than mandating work alone, can produce more positive effects not only on employment and earnings but also on some measures of child well-being. A key issue for the future will be whether welfare reform is about improving the lives of families and children or about ending dependency and saving



money for taxpayers. Thus far, different states have adopted different approaches, with Minnesota, for example, emphasizing making work pay while Texas and Wisconsin have put more emphasis on ending dependency. And whatever formal policy choices states may make, local practices vary substantially not only from one state to another but even from one county to another within a state.

For these and other reasons, caseloads have declined unevenly. On average nationwide they have dropped by more than half, but that average reflects sharp variations—from 90 percent in Wyoming and 79 percent in Wisconsin to 46 percent in California and 26 percent in Hawaii between January of 1994 and June of 2000. And as Katz and Allen note, declines have been slower in the cities than outside of them, so that more and more of the caseload is concentrated in urban counties.

Not surprisingly, states are happy with their new role and are likely to want a simple extension of the law when it is reauthorized in 2002. But the wide latitude given states by the law must be balanced against the need for accountability. Today policymakers lack good information about what states are doing, where federal funds are being spent, who is receiving what services, and what happens to families after they leave welfare. Data on such matters have never been adequate, but as Nathan and Gais, as well as Greenberg, note, devolution has entailed real losses in information.

Does the Law Need to Be Changed?

Vin Weber observes that neither of the political parties in Washington is advocating major changes in welfare law. Both are more likely to fine-tune or modify it in ways that build on, rather than reverse, its current thrust. From a local perspective as well, some stability could be useful; too much change at the federal level makes life difficult for those with day-to-day responsibility for implementing the law.

Nonetheless, debates will undoubtedly arise about funding as well as other matters. Conservatives may argue that states no longer need so much money in the face of falling caseloads while liberals will want to expand funding to serve both those who remain on the rolls and a broader group of low-income working families. Currently, states receive \$16.5 billion a year from Washington to assist needy families with children. States are required to maintain their own spending at 75–80 percent of what they spent during the early 1990s, or around \$11 billion a year. Because caseloads have declined sharply, states have reaped a windfall and now have much more to spend per family on welfare than they did before 1996. But if caseloads should rise again in response to a recession, states are likely to need more than the small contingency fund now available for this purpose. Because the allocation of federal funds among

The key challenges now childbearing outside of marriage

states is based on commitments that historically favored high-benefit states, another issue is the fairness of providing more than twice as much federal money for a poor child in a wealthy state as for one in a poorer state.

One of the new law's most contentious issues has always been its five-year limit on the time families may receive federally funded benefits. Because the time limit will not begin to kick in until this coming fall, its full effects have not yet been felt. Should states start implementing it in the midst of a recession, the resulting harm to families could produce an outcry that might well change the debate. But states have other options. They may use their own funds to keep families on the rolls longer or may put families into community service jobs. Federal rules already allow states to exempt 20 percent of their caseload from the limit, and states may ask Washington to liberalize those rules.

The issues of funding and time limits will almost surely be linked to a broader debate about the purposes of the law. Once the goal of welfare reform is broadened beyond providing cash assistance to needy families to include encouraging marriage, making work pay, and helping families with problems ranging from substance abuse to mental health, the adequacy of any particular level of resources is unclear. Indeed, one danger is that funding will be set based on historical experience while the objectives expand in new directions. In particular, several

contributors argue that the law should give much more attention to reducing poverty and finding strategies and performance measures that relate to this larger goal.

Beyond Welfare: The Unfinished Agenda

Certainly, the new welfare law, and any modifications to it in 2002, will not end the debate about poverty in the United States. That debate is ongoing and will always involve disputes about the balance between individual and social responsibility. In 2002 the reauthorization of TANF and related legislation, such as food stamps and the child care block grant, will provide an opportunity to reengage that debate.

I would argue that the three most important aspects of that broader debate are what society owes to those who work but remain poor; what, if anything, can be done to reduce childbearing outside of marriage; and how to break the cycle of poverty for children growing up in low-income communities.

Supports for the working poor have expanded over the past two decades, especially since 1990. The earned income tax credit is now the nation's largest antipoverty program by far. Future debates are likely to center on whether it can be further expanded to encourage work and marriage while mini-

children, and by funding programs that enhance the marital and parenting skills of high-risk families. But he admits that such strategies may not change people's behavior. The fact that many women in these communities begin childbearing at a very early age—typically in their teens—suggests the need to prevent early sex and pregnancy. The 1996 law provided funding for abstinence education programs whose efficacy remains unproven. Bearing in mind that the typical teenager spends about 7 hours a day watching television, surfing the Internet, and reading popular magazines, reaching them through these popular media may be far more cost-effective than school or community-based programs regardless of whether the message is abstinence or safer sex. In short, emphasis needs to be placed as much on changing cultural norms through creative use of the media as on offering more sex education programs. And with so many mothers now working, and some evidence that this has created problems for their adolescent children, more after-school programs may be needed as well.

Breaking the cycle of child poverty is a high priority for many but often gets lost in discussions of the welfare system. To the extent it is discussed, it is usually in the context of providing child care for mothers leaving welfare for work. Most observers recognize that the children of these mothers

to provide greater supports for low-wage work, reduce
and ensure that more children have a good start in life.

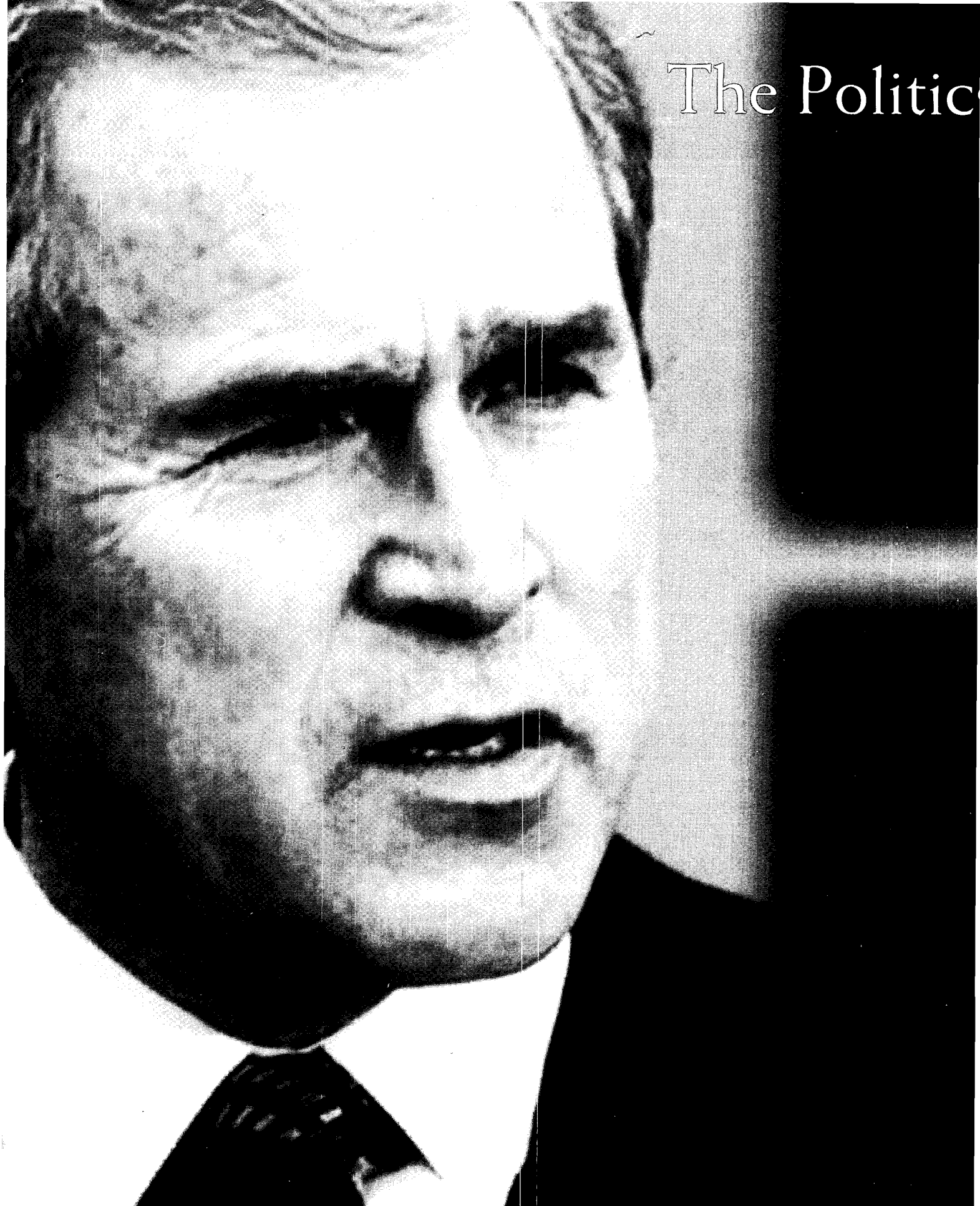
mizing error and fraud. Other support strategies likely to be discussed are subsidized child care or health insurance for low-income adults, a higher minimum wage, refundable tax credits for children in families that work, or cash supplements paid through the welfare system for those in low-paid jobs. Concerns about whether the least skilled will be able to find work in a less robust economy may also be addressed. Although few states have chosen to back up the work requirement in the new welfare law with community service jobs for those unable to find jobs in the private sector, linking the two has broad appeal. Liberals have always liked the idea of guaranteeing a job to those unable to find work and conservatives have come to understand that last-resort jobs in the public sector make a tough work requirement more politically acceptable as well as easier to enforce.

Reducing childbearing outside of marriage is a more daunting challenge. Not only is there less consensus about this as a goal, but also there are far fewer workable remedies. Nonetheless, reducing out-of-wedlock childbearing was a key goal of the 1996 legislation and for good reason. The growth of single-parent families, driven almost entirely by out-of-wedlock childbearing in recent years, has substantially worsened child poverty. Wade Horn suggests that public policy might encourage marriage by reducing the marriage penalty in the EITC, by helping fathers earn enough to support their

will need some sort of care, but they cannot agree whether the available care is adequate and whether improving it could be one way to break the cycle of poverty. Thus far, there is little evidence that requiring mothers to work has harmed their children. But the goal of leaving no child behind goes beyond doing no harm. In fact, many believe that if every young child of a mother leaving welfare had access to Head Start or another high-quality early education program, more children would reach school age ready to learn and, with appropriate follow-up in the elementary grades, go on to greater success as adults.

Looking Ahead

Welfare reform has been far more successful than most people anticipated. Caseloads are down, employment among single mothers is up, and poverty rates have fallen. In the absence of a major recession that reverses all this good news, it is unlikely that the direction of current policy will be reversed or that major features of the 1996 law will be modified. That doesn't mean there won't be some changes and that reauthorization won't or shouldn't catalyze a broader debate about antipoverty policy in the United States. The most important challenges in this regard are to provide greater supports for low-wage work, to reduce childbearing outside of marriage, and to ensure that more children have a good start in life. ■



The Politics

of Welfare Reform Republicans with Hearts Give Democrats Hope

by Tom Downey

As a charter member of the Democratic left, my view has always been that welfare reform has two goals: helping people get work and eliminating poverty. We haven't had a discussion about ending poverty in a long time. But I think we may be ready for one.

I've got a long history as a mock sparring partner preparing Democrats for the televised presidential campaign debates. In the 1996 campaign, I played Jack Kemp. In 2000, I was Bill Bradley—another professional athlete but otherwise quite a contrast. Last fall, my preparations to play George W. Bush ended abruptly when I got a package in the mail that included his debate material and a videotape of him debating. But before that happened, I had spent two months studying everything that Bush had done on the issue of poverty and welfare, everything he'd said. I was prob-

ably his web site's most frequent visitor.

As the campaign unfolded, I began to have a certain amount of partisan unease, I must say. I knew it was going to be a close election. But Bush was doing something that Republicans have historically just not done. Prosperity with a purpose. Compassionate conservatism. Stealing the phrase of the Children's Defense Fund—leave no child behind.

These are important statements and phrases. They mean something when they're repeated as often as they have been. I was uneasy because I have always felt that Republicans with hearts—thankfully, there are not a lot of them—are pretty potent and pretty effective politically. I was afraid that Bush was a Republican with a heart and that he was going to be real trouble for us. Well, while I personally think we won the election last fall, he was certainly trouble.

From now on, part of the welfare debate has to be focused on what George Bush wants to do and how he is going to do it. And here, there are some intriguing suggestions.

First of all, Bush named Governor Tommy Thompson to be his health and human services secretary. During Thompson's confirmation, Senator John

Edwards (D-NC) asked him, "Do you save money doing welfare reform?" And Thompson said, "I've been preaching about this forever. Welfare reform is not about saving money. It's about getting people to work and getting them started." Frankly, while I'm not always excited by some of Secretary Thompson's rhetoric on the subject, I think that if all the states in the union did what Wisconsin does to help people get work and to help provide quality day care and wage supplements, we'd be a lot better country.

Then there is President Bush's inaugural address, a couple of passages from which are well worth noting:

"In the quiet of American conscience, we know that a deep persistent poverty is unworthy of our nation's promise. And whatever our views of its cause, we can agree that children at risk are not at fault; abandonment and abuse are not acts of God, they are failures of love.

"Where there is suffering, there is duty. Americans in need are not strangers. They are citizens. Not problems, but priorities. And all of us are diminished when they are hopeless.

"Many in our country do not know the pain of poverty. But we can listen to

Tom Downey, chairman of Downey McGrath Group, represented the second district of New York in the U.S. House of Representatives for 18 years. He was acting chairman of the House Ways and Means Subcommittee on Human Resources for five years and one of the chief House architects of the 1988 Family Support Act.

those who do. And I pledge our nation to a goal. When we see that wounded traveler on the road to Jericho, we will not pass to the other side."

Now, my friend Al Gore may not like for me to say it, but this was a beautiful inaugural address. And these particular words were the first words of President Bush espousing the deep principles of his presidency. So the question in the weeks and months ahead will be: do these words have meaning?

Democrats will be watching closely. Congressman George Miller (D-CA), an unlikely supporter of President Bush, said to me recently that he believes Bush is going to do some important work in educating the disadvantaged. Maybe Bush will also do some important work for people who are still suffering from poverty. And, make no mistake about it, many are—and grievously.

Last December, a report by the Catholic Charities noted that the number of people receiving emergency assistance at their shelters had increased 22 percent. The number of people receiving emergency food assistance from soup kitchens, food banks, and other food services had surged 32 percent. Emergency cash assistance, which helps people pay for rent, utilities, and medicine, had risen 29 percent to \$80 million. The number of people receiving utility assistance had increased 15 percent. Clothing assistance had gone up 9 percent. Homelessness had also gone up.

These disturbing trends are also mirrored in reports by the League of Cities. And as Peter Edelman has eloquently pointed out in his book, *Searching for America's Heart*, many, many people have left the welfare rolls, but have not found jobs. The incidence of real grinding poverty—that is, income less than half the

poverty level—has been pretty persistent and consistent.

What can happen? President Bush can say, "I'm going to do more for early childhood education. I'm going to expand Head Start for three- and four-year-olds. I want to make it a reading program and I want to make it much bigger." A lot of Democrats will be happily applauding on the sidelines. Bush can say he wants to expand the school day and the school year. We'll cheer him every step of the way and give him large majorities when it comes time to vote.

The president wants to increase the child tax credit from \$500 to \$1,000. That's a good idea, too—but not quite good enough unless it's partially refundable so that it can go to some of the people who really need the help. We can also expand the earned income tax credit—not only to eliminate its marriage penalty, but also to account for a third child. That's expensive, but it's the right thing to do. And we can expand the Child Health Insurance Program.

I'm frankly a lot more optimistic about the prospects for all these initiatives than I might have been right after last November's election. I think some of the signs are good. We might not see a lot of changes in the welfare reform law. It's going to be hard to undo the time limits, though maybe we can change the way the clock starts in some parts of the country. And we also must face the painful reality that about a third of the folks who have received public assistance over the years are just not going to get to work. And we'd better be damned concerned about what happens to their kids.

On some of these issues, the president has spoken eloquently. Now it's up to him to show us the money. ■

The Politics of Welfare

The emergence of an uneasy consensus on welfare reform is one of the underreported developments of last fall's election campaign. Readers of news reports of that campaign may have concluded that the country was so hopelessly divided on almost everything that it could not possibly come together. Yet, remarkably, on the biggest social initiative of the past 10 years or even longer, there was no debate last fall between Al Gore and George Bush.

One could easily imagine such a debate, with Gore favoring scaling back some of what he might see as more draconian aspects of welfare reform and Bush seconding a suggestion made last year by House Republicans to begin scaling back some work supports, particularly the earned income tax credit. But Gore chose not to make that argument, and Bush pointedly disagreed with the House Republicans' suggestion. Beyond that, there wasn't much discussion about welfare reform. I think that silence is worth noting.

When I first got involved in welfare reform in the House of Representatives back in the 1980s, precious few Republicans were involved at all in the issues of poverty and welfare. Most of the debate on the conservative side had been basically bumper-sticker quality—with much talk about welfare queens and pouring money down a rat hole. The questions for conservatives at that time were how to get people off the welfare rolls and how to cut spending and save money. In response, Democrats on the left defended the existing system and tried to counter the conservative bumper stickers.

Vin Weber, of Clark and Weinstock, represented the second district of Minnesota in the U.S. House of Representatives from 1981 to 1993. He was a member of the Appropriations Committee and an elected member of the Republican leadership.

of Welfare Reform

by Vin Weber

ampaign 2000

are Reform Debate That Wasn't

Both parties have changed quite a bit since then, but more has changed on the Republican side. The debate began to become meaningful with the emergence of a Republican group with a serious interest in reducing poverty, not just in reducing welfare spending. Today a lot of Republicans and conservatives are genuinely interested in reducing poverty and honestly believe that welfare reform can be for the betterment of poor people and children.

What will happen next in welfare reform? That we have gone through a presidential political campaign without the parties' debating this issue tells me that major change in welfare is not

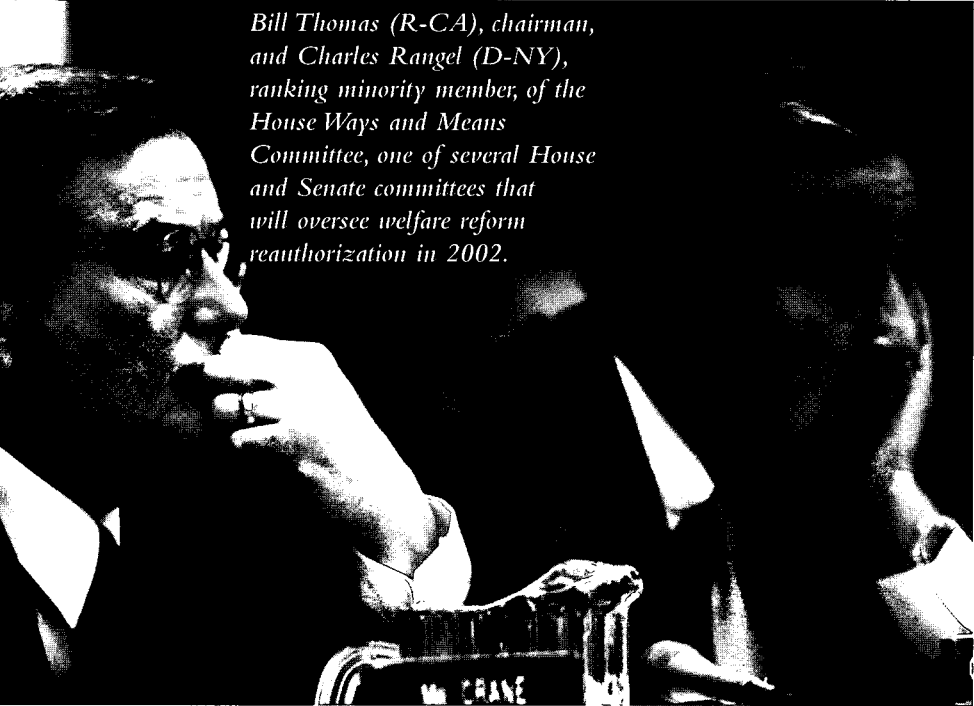
forthcoming. That doesn't mean there won't be a lot of debate when the 1996 law comes up for reauthorization in 2002. It doesn't mean there aren't going to be some changes. It doesn't mean there won't be some substantial disagreements between liberals and conservatives in Congress.

Certainly the specter of recession is going to be raised repeatedly, and rightly, by people on the left. I think that's appropriate. Who can be completely comfortable about what will happen in an economic downturn? What happens to kids, what happens to poor people? I think that's going to be the driving force rhetorically from the left. It's probably

going to result in an assault on time limits—but in the end, I don't think the assault will prevail.

From the right, from the conservative side, there will certainly be a tendency to look at that big pot of money that we are spending—both the block grant and the work supports—and say, “You know, this is succeeding so well, we don't need to spend so much money on it anymore. Let's find some money out of those accounts to put to the military buildup or a tax cut or something else we might want to do.” That might be a slightly greater risk. I hope that doesn't happen and will do what I can to make sure that it doesn't.

My judgment is that we will continue the welfare reform experiment—which is what this really is. We will move toward perfecting this policy, not reversing it. After all, it's a policy for which everybody took credit last fall. In a campaign in which the Republicans said that the past eight years were squandered and the Democrats spoke disparagingly of a do-nothing Republican Congress, welfare reform was one policy for which everybody claimed credit. Maybe people on both the right and the left felt a little uneasy when they gave the speeches taking that credit because there were aspects of the new law they weren't so sure about. But believe me, everybody in Congress went back home and said that one of the great things we did these last several years was to reform welfare. They all have a stake in not undoing it now. ■



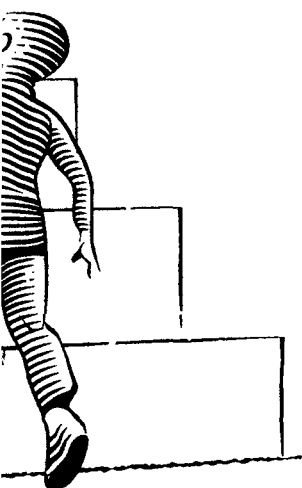
Bill Thomas (R-CA), chairman, and Charles Rangel (D-NY), ranking minority member, of the House Ways and Means Committee, one of several House and Senate committees that will oversee welfare reform reauthorization in 2002.



Giving IS NOT Enough

by Ron Haskins

Work and Work Supports Are Reducing Poverty



The essence of the 1996 welfare reform law was work. Under the new law, welfare recipients, previously subject to only loose requirements of any type, were to be strongly encouraged—even forced—to work. The legal entitlement to cash welfare was to be ended in favor of a system that required work and other signs of personal responsibility as a condition of receiving benefits. Previous welfare law had paid lip service to work but had imposed no work requirements for single mothers. For those few welfare recipients selected to meet a work participation standard, such as education, the law had exacted few consequences for failure. But in 1996, and even earlier as some states began to impose work requirements by obtaining waivers from federal law, the requirement to work became real. Recipients who refused to work or prepare for work had their benefits reduced; more than 30 states adopted sanction policy that terminated benefits completely. States that did not place a specific percentage of their recipients in work or work preparation programs suffered financial penalties. Recipients were also subjected to a

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five-year limit on benefits, a strong signal that self-support is a must.

From Welfare to Work

Coupled with a booming economy and public policies to help the working poor, these tough reforms have been associated with an historic decline in the welfare rolls—more than 50 percent from the peak welfare enrollment of 5.1 million families in the spring of 1994. So mothers are leaving welfare in record numbers. But are they finding work?

Brookings economist Gary Burtless has shown, using national employment data from the Census Bureau, that after a decade of stagnation at about 57–58 percent, the employment rate of single mothers increased slightly in 1994 and then shot up dramatically every year between 1995 and 1999 to 72 percent, an all-time high. More remarkable still, the employment rate of never-married mothers, who are the most likely to have little education or job experience and long stays on welfare, increased even more. Between 1992 and 1996, their employment rate rose gradually from around 43 percent to 49 percent. But in the three years after enactment of the 1996 legislation, the rate exploded. By 1999 it had risen to 65 percent, also an all-time high and an increase of 33 percent in just three years.

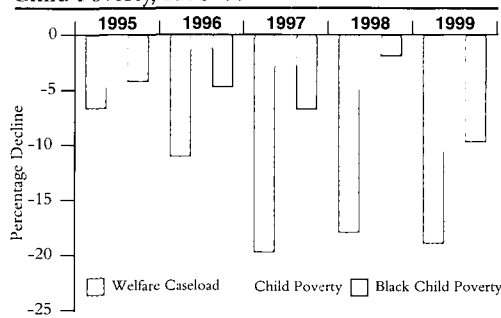
Is Poverty Falling?

Virtually everyone in the policy world agrees that since the 1996 reforms were enacted, welfare rolls have fallen dramatically and employment by female family heads, especially never-married heads, has risen impressively. But most observers are not satisfied with declines in welfare and increased work. They want to know if the mothers and children formerly on welfare are financially better off.

Of the many measures that could be picked to examine financial well-being, one of the most useful is the poverty measure used by the U.S. Census Bureau. Although not without its critics, the measure stands out as a reasonable means to trace changes in family material well-being for two reasons. First, it is widely used by social scientists, reporters, and politicians. Second, it has been computed in a standard manner that produces a continuous data series on poverty from 1959 to 1999.

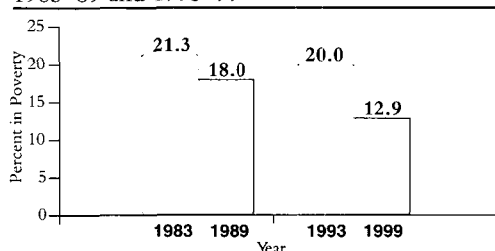
Figure 1 compares the annual percentage change in the welfare caseload, the Census Bureau measure of child poverty, and the Census Bureau measure of black child poverty during 1995–99. All three measures fell every year. Even the smallest annual decline in the welfare rolls during those five years, around 7 percent in 1995, exceeds those of any year before 1995, highlighting the historic nature of the decline in cash welfare.

Figure 1. Decline in Welfare Caseloads and Child Poverty, 1995–99



Source: Caseload data from Congressional Research Services; poverty data from Census Bureau

Figure 2. Child Poverty, Including In-Kind Government Benefits and Tax Benefits, 1983–89 and 1993–99



Source: Bureau of the Census

The declines in overall child poverty and black child poverty are also impressive. Not only did both rates decline every year, but the black child poverty rate has been falling for seven straight years, the most sustained decline since the Census Bureau began measuring it in 1974. Further, the declines in black child poverty in 1997 and 1999, 6.8 percent and 9.8 percent respectively, are the largest ever recorded, and the rate today is the lowest it has ever been. In fact, between 1974 and 1992, the general drift of black child poverty was up. Over this 17-year period, as Congress greatly increased spending on welfare programs, poverty among black children fell in nine years and grew in eight; overall the rate increased from 39.9 percent to 46.6 percent, well over 15 percent. Indeed, during the prolonged economic expansion of the 1980s, as the American economy added nearly 20 million jobs, black child poverty never fell below 43.1

percent, as compared with 33.1 percent in 1999.

Despite this historic progress against poverty, the Census Bureau's official poverty measure understates the progress the nation is now making against child poverty because it does not take into account in-kind federal benefits (such as food stamps) or tax benefits (such as the earned income tax credit) for which low-income working families generally qualify. Indeed, by not counting these two benefits alone, the official poverty measure ignores at least \$35 billion in benefits enjoyed by low-income working families. Fortunately, the Census Bureau also publishes an experimental poverty measure that includes these and a few similar benefits like housing. Figure 2 uses this alternative measure to show the true progress the nation made in reducing children's poverty during the economic expansions of the 1980s and the 1990s. In both expansions, child poverty declined. But it fell more than twice as much during the 1990s as during the 1980s—35.5 percent as against 15.5 percent.

Was It the Economy?

Two developments explain the vast differences in poverty reduction during the two decades. But before examining them, I address one widely cited factor in explaining the difference—namely, the economy. During the boom of the 1980s, the American economy added a net of almost 20 million jobs. If, as many analysts and pundits claim, a hot economy plucks people off welfare, then we would expect the welfare rolls to have declined during the 1980s. But let's look at the data. When the economy first began adding jobs in the spring of 1983, the welfare rolls were growing. As the econ-

omy added a net of about 1 million jobs over the next year, they continued to climb. Between 1984 and the winter of 1988, as the economy added another 9 million jobs, the welfare rolls remained relatively flat, moving up and down in no apparent pattern. By 1988, they stood at about 3.7 million families, about the same as at the beginning of recovery in 1983 when a total of 16 million fewer Americans held jobs. Then over the next 18 months, as the economy added another 3 million jobs, the rolls shot up nearly 12 percent to more than 4 million families. During the entire 1980s expansion, the American economy added 20 million jobs and the welfare rolls grew by nearly half a million families. Those who want to attribute the recent remarkable decline in welfare rolls to the booming economy of the 1990s must account for why an economy that was almost as superb during the 1980s failed to reduce, and on the contrary, was associated with an actual increase in welfare rolls.



Since roughly 1985, Congress has been quietly building a work support system that provides public benefits for low-income working families, especially those with children.

What Made the 1990s Different?

The 1990s have been a different story. For the first two-plus years of the recovery, between roughly December 1991 and March 1994, as the economy added about 6 million jobs, the welfare rolls grew by a surprising 700,000 families. But then, as more than half the states implemented work programs by 1994 and especially after enactment of the sweeping federal welfare reform legislation in 1996, the welfare rolls began a sustained decline that has yet to stop. Even more interesting, the nation is also in a sustained period during which poverty is declining more sharply than at any time since the 1950s.

Here's why. First, the mandatory work requirements outlined above spurred people to leave welfare and take jobs. Before the 1996 reforms, families accumulated on the welfare rolls and stayed for long spells. In fact, the average stay, counting repeat spells, for families on the rolls at any given moment was a shocking 12 years. Thus, even though the economy might expand rapidly, as it did during the 1980s, most families on welfare could not possibly benefit from the rising opportunity because they weren't even in the job market. And public policy did not encourage or, where necessary, force them into the job market. In the 1990s, by contrast, in large part because of the much more demanding welfare system, many families who would have been on welfare in previous years entered the job market and found jobs.

But the jobs they found generally paid low wages. So how did so many of them escape poverty? The answer brings us to the second cause for the great drop in poverty during the 1990s. Since roughly 1985, Congress has been quietly building a work support system that provides public benefits for low-income working families, especially those with children. This

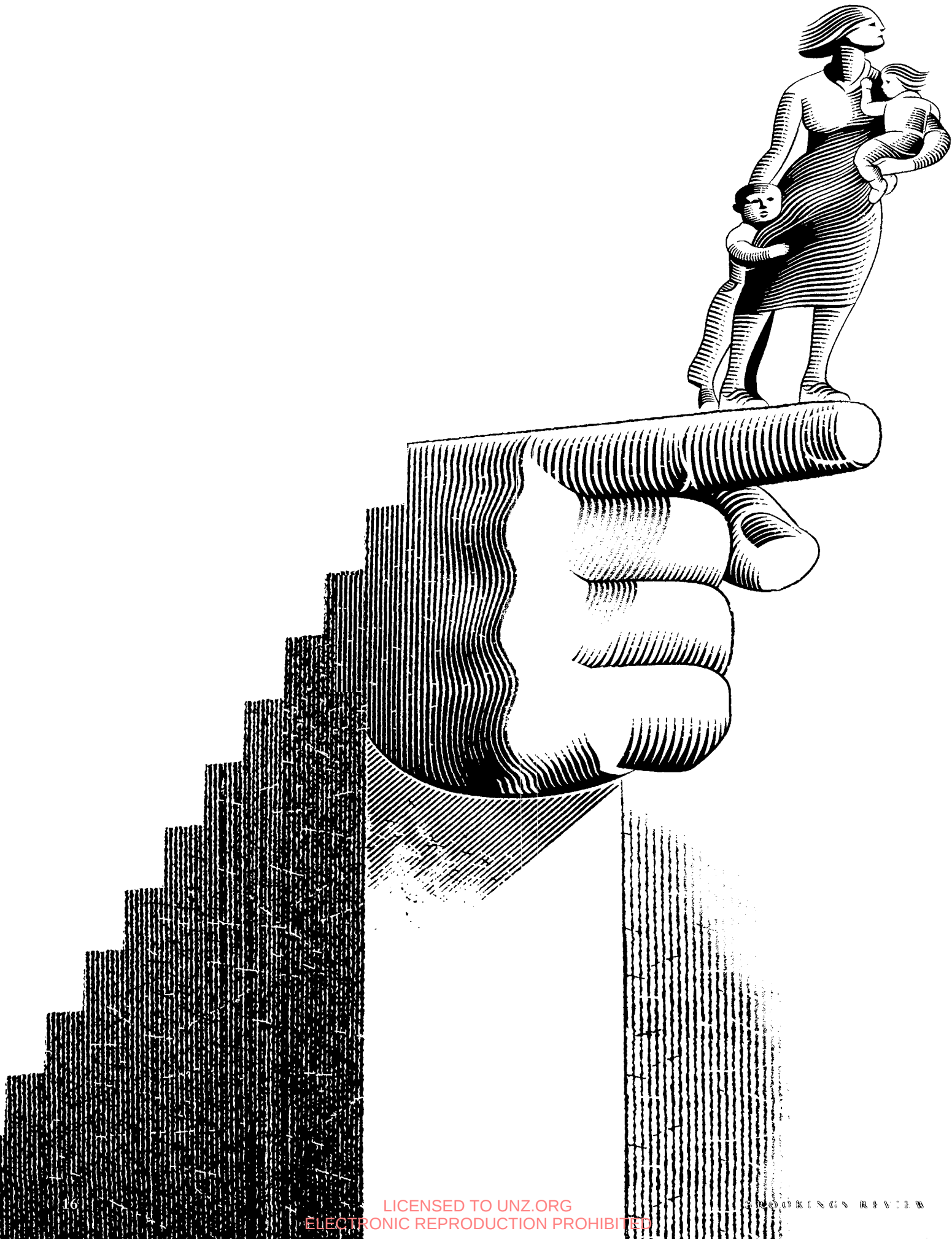
work support system includes housing, food stamps, the earned income tax credit, Medicaid, the Child Health Insurance Program, the child tax credit, child care, child support enforcement, and a variety of nutrition benefits for children such as school lunch, food subsidies for day care, and a major food program for mothers and infants. All have one feature in common: working families can receive benefits as long as their income is below a cutoff point that varies by program but is quite high. For example, the cutoff for food stamps is around \$18,000; that for the EITC is more than \$29,000. Thus, a mother with two children leaving welfare and earning \$10,000 a year can supplement her income by \$4,000 in cash from the EITC and by more than \$2,000 in food stamps, bringing her total pretax income to \$16,000 and lifting her and her children out of poverty.

Build on Success

As the time approaches to reauthorize the 1996 welfare reform legislation, it is important that members of Congress, their staffs, and the public realize how successful the 1996 legislation has been in reducing poverty. Although Congress created scores of new programs and

increased spending by billions of dollars in the decades leading up to welfare reform, no progress was made against children's poverty. Government action in simply giving away money, in-kind benefits, and social services—some on an entitlement basis—turned out to be a lousy way to reduce poverty. But the 1996 legislation marks a departure from providing guaranteed benefits to an approach demanding individual responsibility and then providing public subsidies for work. The result is historic declines in welfare, increases in work, and declines in poverty.

To continue and even expand this new approach, both liberals and conservatives must recognize that their favorite solutions to poverty are inadequate. Giving people benefits leaves them in poverty, reduces their propensity to work, and arguably impedes family formation. But pushing people to leave welfare for work does not ensure that they and their families will avoid poverty. Such are the work skills of millions of American parents that the value of their labor in the market is inadequate to support a family. In view of this stubborn reality, the best strategy is to require work and then provide public subsidies that lift working families out of poverty. As experience since the seminal 1996 reforms shows so clearly, only the combination of work and work subsidies will both promote personal responsibility and effectively fight poverty. At last, after three decades of failing to help families leave poverty by giving them lots of cash and in-kind welfare, we have found that both material and behavioral poverty are best attacked by the policy of mandatory work supplemented by government work supports. ■



What Next for Welfare Reform?

by Wendell Primus

A Vision for Assisting Families

When I joined the Clinton administration at the Department of Health and Human Services in 1993, non-Social Security budget deficits were projected to be about \$5 trillion over the next 10 years. Today, those same projections yield surpluses of about \$3 trillion. This fiscal situation offers an unparalleled opportunity to build on the successes of welfare reform, to ensure that the working poor have a livable income, to reduce child poverty, and to provide health insurance to a greater share of low-income working parents and their children. As we applaud the achievements of welfare reform, we need to keep in mind its shortcomings as well—and to take steps to mend them.

Results So Far

Although one crucial feature of the 1996 welfare reform law—time limits—has still not been fully implemented, the results of reform thus far are striking. Since the law terminated the Aid to Families with Dependent Children program and replaced it with Temporary Assistance for Needy Families, welfare caseloads have fallen dramatically. Single mothers are working more and earning more. In 1992, about one-third of single mothers with young children were working. By 1999, the share had grown to more than half. Official child poverty rates have declined, and under a comprehensive measure of poverty that includes government benefits and taxes, the child poverty rate fell to 12.9 percent in 1999, the all-time low since this measure became available in 1979.

Wendell Primus is director of income security at the Center for Budget and Policy Priorities.

Not all these changes can be ascribed to the new welfare law. A strong economy and public policies that “make work pay” must also be credited. Welfare reform coincided with the longest-running economic expansion in U.S. history—a time when hourly wage rates for the lowest-paid workers began to rise after falling for two consecutive decades.

Among the most important “make work pay” policy steps of the 1990s was expanding the earned income tax credit. The credit, available only to low-wage workers with children, is refundable and can have as much value as a \$2 per-hour raise. One leading study found that EITC expansions between 1984 and 1996 were responsible for more than half the increase in employment among single mothers during that time. Other such policies include expanded public health insurance for low-income children not receiving cash assistance, increased spending on child care subsidies, and increased earned income “disregards” that allow welfare recipients to keep more of their earnings when they work while remaining on welfare.

One would expect earnings to rise and child poverty to fall under these conditions. Yet some families are still floundering. On average, the inflation-adjusted disposable incomes of the poorest fifth of single mothers (about 1.8 million families) fell 4 percent between 1995 and 1999.

Another worrisome indicator is the “poverty gap,” which has scarcely budged in recent years despite the falling poverty rate. The poverty gap—the number of dollars required to bring all low-income people up to the poverty line—takes into account not only the breadth of poverty, but also its depth.

As shown in table 1, during 1995–99, the increased earnings of low-income families with children reduced the pre-transfer poverty gap (the gap before government benefits and taxes) an impressive \$17 billion. Yet once all government benefits and taxes are included, the gap fell only about \$2 bil-

Table 1. Poverty Gap for Families with Children, 1993–99

Billions of 1999 inflation-adjusted dollars

	Poverty Gap			Change in Poverty Gap	
	1993	1995	1999	1993–1995	1995–1999
Before taxes and transfers	85.0	73.0	55.9	-12.0	-17.1
After taxes and transfers	32.0	24.8	22.5	-7.2	-2.3

Source: Current Population Survey.

lion—only one-third of the reduction between 1993 and 1995, when the drop in the pretransfer poverty gap was considerably smaller.

Changes in the income of single-mother families reflect this same trend. The poorest 40 percent of single-mother families increased their inflation-adjusted earnings about \$2,300 per family on average between 1995 and 1999. But their (inflation-adjusted) disposable income increased on average only \$292. The increased earnings are not translating into greater disposable income because many of these families are losing ancillary benefits, such as food stamps, for which they remain eligible.

These data about disposable income are significant—and troubling—in light of a recent survey of the results of five separate studies covering 11 different welfare reform programs. The survey found that increased parental employment did not by itself significantly improve the lives of the parents' children. Only in programs where the parents increased both their employment and their income did the survey note positive effects—such as higher school achievement—for elementary school-aged children.

Supporting Working Poor Families

Because their disposable income has grown so little of late, the key issue for working-poor families who are no longer on welfare is their low participation in work support programs. These families should be able to get food stamps, child care, and health insurance readily, ideally from one place and through a relatively simple joint application. States should be allowed to simplify the transitional Medicaid program and provide transitional food stamp benefits for families going to work. Community-based groups, including faith-based ones, should help eligible families get these benefits.

Several changes in food stamp policy could boost participation among the working poor. The federal quality control system, for example, should be modified, for it has led many states to take administrative actions that have cut participation among working families. The food stamp program itself should be simplified. Asset tests, in particular, should be revisited, for current tests make the program hard to administer and make too many low-income working families ineligible. The adequacy of the food stamp benefit structure also warrants reexamination, particularly in light of the cuts in benefits enacted in 1996.

Some changes in health insurance are also needed. In the typical (or median) state, a parent in a family of three loses Medicaid eligibility when her income surpasses 67 percent of the poverty line. Research has shown that expanding state Medicaid programs to cover parents also increases the number of

low-income children protected by health insurance. We should expand funding for the State Children's Health Insurance Program (State-CHIP) and allow states to use the funds to extend coverage (through

Medicaid or state programs) to low-income working parents (including noncustodial parents who pay child support) along with their children.

Employed immigrants are twice as likely to be poor as employed natives, and children in immigrant families make up one-quarter of all children below the poverty line. The 1996 welfare law eliminated much of the federal safety net for legal immigrants, including food stamps, Medicaid, and CHIP. Though aimed at immigrants, the impact of these restrictions falls also on children who are U.S. citizens. The children themselves and some immigrant parents remain eligible for benefits, but confusion about eligibility and concerns about the immigration consequences of receiving benefits have lowered participation. Congress should allow states to provide Medicaid, CHIP, and TANF benefits to working-poor immigrants and restore food stamp benefits for those who were made ineligible by the welfare law.

Finally, several changes in the federal tax code would benefit low-income working families. The EITC could be expanded for larger families and for families in targeted income ranges to reduce the high marginal tax rates that many such families face. And the child tax credit could be made partially refundable for low-income working families.

Focusing TANF on Poverty Reduction

When TANF is reauthorized in 2002, the first step toward improving it will be to shift its focus from reducing caseloads to reducing poverty. A principal purpose of welfare should be to reduce child and family poverty. Over the next 10 years, Prime Minister Tony Blair has committed his government to cutting UK child poverty rates—which are similar to our own—in half. The United States should follow suit.

Since Congress reformed welfare in 1996, a key impediment to measuring progress against poverty has been the lack of accurate state data on poverty rates and poverty gaps among families with children. The Census Bureau's new American Community Survey will be able to provide this data after the law is reauthorized. States that cut poverty the most, by emphasizing both work and the work support programs described above, should be rewarded.

Recognizing Special Needs of Certain Families

According to one study, 44 percent of TANF recipients reported at least two significant obstacles to work, such as low education, no recent work experience, language barriers, mental or physical health problems and disabilities, and lack of transportation or child care. The share of recipients reporting no work activity increased steadily with the number of signif-

ificant obstacles. Research also indicates that families that fail to meet work requirements (and have their welfare benefit reduced as a result) have greater barriers to employment than other families receiving welfare. Providing services and accommodations appropriate to their greater needs should enable more of these parents to succeed in the workplace. Some states have been able to help many families that initially fail to comply with work requirements, rather than simply sanctioning them and setting them adrift. All states should be encouraged to follow their lead.

The five-year lifetime limit on federally funded welfare receipt also should be revisited. Work requirements and earnings disregards encourage welfare recipients to make the transition to work by combining earnings from work with a wage supplement in the form of small cash assistance payments. But recipients who make this transition and receive these wage supplements risk hitting the time limit and becoming ineligible for benefits when they may need them in the future. States should be able to use federal TANF dollars to provide wage supplements to families that are working but not earning enough to support themselves.

The share of participating families that states may exempt from time limits—now 20 percent of current caseload—should also be increased. Today the exemption covers many fewer people than was envisioned when the law was passed because current caseload size is much smaller than anyone expected.

Supporting Noncustodial Parents

Noncustodial parents (most of whom are fathers) should be encouraged to provide for their children both financially and emotionally. Child support, for poor families that receive it, is the second largest part of their family budget—more than one-quarter of income on average. But many eligible families do not receive child support or receive it only irregularly. For children in families that have ever been on welfare, the government keeps much of the support that noncustodial parents pay as reimbursement for public welfare costs. Ending the “cost recovery” focus of the current child support system would remove a major disincentive for fathers to pay child support and allow children to benefit directly from their fathers’ contributions. States could go further and build on the proven success and cost-effectiveness of the EITC by creating similar financial incentives for payment of child support. For example, a state could match low-income fathers’ child support payments.

States also could increase the capacity of low-income noncustodial parents to pay child support by providing employment services and work supports. One reason why many such parents do not pay child support regularly is that they are under-employed and have only a limited income from which to pay child support. Welfare reform encouraged more low-income mothers to enter the workplace so they could better support their children. The next steps are to help low-income noncustodial parents get jobs and to address some of their difficulties with the child support system (including child support orders that are high relative to their income, large accumulated child support debts owed to states, and economic

disincentives to pay child support) so that they can take more financial and emotional responsibility for their children.

Keeping Fragile Families Together

According to recent research, about half of children born to single parents live with both biological parents at birth. As time goes by, however, these fragile families tend to separate. Policymakers need to find ways to help fragile families stay together. A welfare study in Minnesota found that two-parent working-poor families receiving cash assistance benefits and work supports were more likely to wed or stay married. Because two-parent families participate in food stamps, Medicaid, and cash welfare assistance at a lower rate than single-parent families, even when their incomes are similar, states should eliminate any remaining barriers or eligibility restrictions that apply to them. States should also actively seek to serve larger proportions of eligible two-parent families.

Increase TANF Funding

To better accomplish the goals of TANF and to reduce child poverty, both the TANF and child care block grants should be increased when the welfare law is reauthorized. At the same time, states must be more accountable for how they use their TANF block grant funds.

The TANF block grant should be indexed for inflation so that the resources do not erode and states can maintain services. The cost of child care, work programs, and other supports funded by TANF will rise with time. States also may need more funds to accomplish the multiple goals of TANF, including serving families with multiple barriers to employment, fragile families, and noncustodial parents, as well as providing more child support to these families.

More money will also be necessary to reduce huge disparities in TANF resources available to states. Today wealthier states receive about \$1,778 in TANF dollars per poor child, while poorer states, which have higher child poverty rates and lower fiscal capacity, receive \$733. Recognizing these disparities, the 1996 law established supplemental grants for the poorer states to begin to move toward greater parity. These grants, scheduled to expire after 2001, should be extended.

Finally, because TANF provides a fixed amount of funding, states will not have additional resources when caseloads increase during an economic downturn. It is widely agreed that the TANF “contingency fund”—which is supposed to provide states additional funds in a recession—will be ineffective. States will need a measure that works.

The Next Round of Reform

Welfare reform has improved the prospects of many current and former recipients, but has had adverse effects on some. When TANF is reauthorized, policymakers should build on its successes, supporting those families who have left welfare for work, helping them climb the economic ladder to a more livable income, and reducing child poverty significantly, while providing additional resources and opportunities to those families left behind by the first round of welfare reform. ■

Welfare Reform and Devolution

Looking Back and Forward

by Mark Greenberg

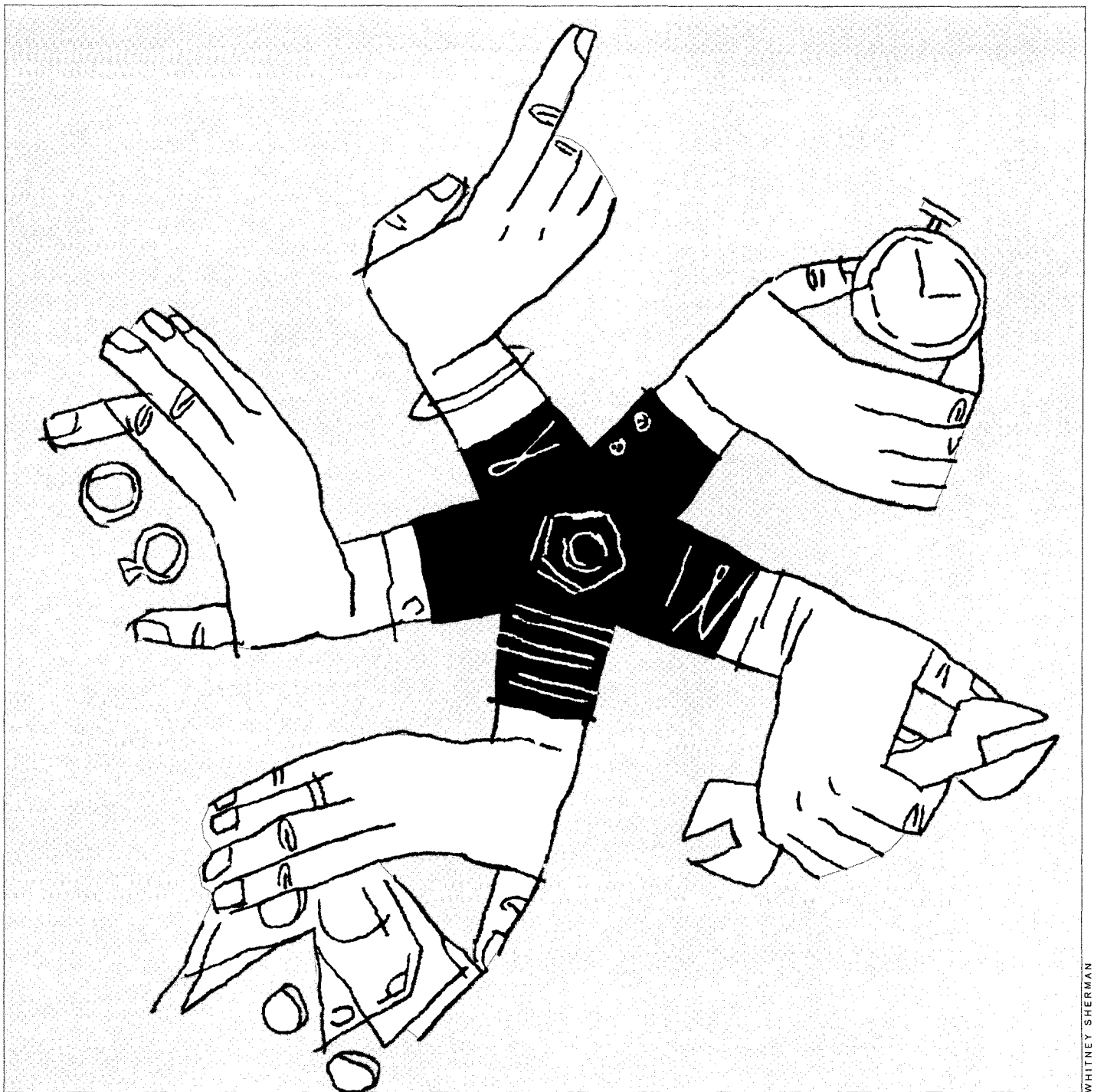
Enactment of the 1996 welfare law was about many things: expecting and requiring work; cutting welfare caseloads; making welfare a transitional, time-limited system; reducing projected spending; discouraging out-of-wedlock pregnancies. But for many, a key theme was that the very existence of a federal program stood in the way of accomplishing these and other goals, and that national goals could best be advanced by giving states broad discretion in using funds and designing programs.

With four years of experience behind us—and reauthorization one year ahead—it is important to assess not only how Temporary Assistance for Needy Families has worked overall, but also how devolution has contributed to the positive (and less positive) aspects of the experience.

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Since 1996, employment among low-income parents has risen, family and child poverty has fallen, and states have expanded many services for low-income families. But welfare caseloads have fallen far more rapidly than child poverty, many families have lost benefits without finding work, and many who have found work have had little or no increase in economic well-being. It is also becoming clear that moving to a highly devolved system has made it

more difficult to assure accountability and describe or measure state performance. So when TANF is reauthorized in 2002, a critical question will be how to preserve and build on a framework of state and local flexibility while better articulating and advancing national policies of promoting work, engaging those who face the most serious barriers to employment, and enhancing the economic well-being of low-income families.



The TANF Structure

The new welfare reform law did not simply devolve functions to states; it established specific funding and policy rules, requirements, and signals to encourage and discourage particular state action.

First, the law abandoned open-ended federal matching funding for state welfare costs. Instead, each state receives a federal TANF block grant, set roughly to

reflect federal welfare spending during 1994–95. To receive its grant, each state must meet a maintenance-of-effort (MOE) obligation: spending for low-income benefits and services must be at least 75–80 percent of a state's previous spending. Nationally, TANF grants have totaled about \$16.5 billion a year, MOE an additional \$10 billion–\$11 billion.

Second, federal entitlements to assistance were eliminated, and each state

was given broad discretion in determining both the rules of its cash assistance programs and how to use its TANF and MOE funds.

Finally, federal goals were advanced principally through penalties, bonuses, and rules governing spending. For example, a state risks a penalty if it uses federal funds to provide assistance to a family for more than 60 months (subject to limited exceptions). It risks a penalty

if it fails to increase the share of families in specified work-related activities—though it can meet this requirement if its caseload falls by a specified amount. A state can qualify for a bonus if the share of out-of-wedlock births in the state falls while the number of abortions also falls.

As a practical matter, the law is sometimes quite prescriptive, particularly in identifying groups that states may not assist. Still, the law considerably expanded states' discretion in deciding how to spend federal and state funds, whom to assist, what services to provide, who should deliver services, and how to structure approaches to welfare reform.

What's the Story?

There seems to be surprisingly little disagreement about what has happened since 1996, though there are sharp disagreements about which parts of the story are most significant, how much is attributable to TANF, and what parts of TANF have mattered most.

The areas of general agreement are many. The nation's welfare caseload has seen a historically unprecedented decline, from 5 million families in 1994 to 2.2 million in June 2000. Child poverty has also fallen, but welfare participation has fallen much more rapidly. In 1994, 62 percent of poor children received benefits; by 1998, the share had fallen to 43 percent. Most people who have left the welfare rolls are working, and the labor force participation rate among low-income single-parent families has grown dramatically. Working parents who have left the rolls typically have low earnings, with a reported median wage of \$6.61 an hour and annual earnings around \$8,000–\$12,000. Food stamp and Medicaid benefits fall sharply among those who leave welfare. Though child care spending has grown rapidly, most who leave welfare for work (and most other low-income working families) get no child care subsidy. Families still receiving assistance are more likely to face quite serious barriers to employment—little education, little work history, higher incidences of mental and physical illnesses and disabilities. Some speak

no English or have a disabled parent in the home. Some families have left assistance without finding work. Many also face serious barriers to employment. Finally, it appears that family structure has not changed dramatically since 1996.

When Congress reauthorizes TANF next year, there will be disputes about whether to view TANF as a success or a mixed story, but few will dispute that, at least in a very strong economy, the experience has been more positive than many anticipated in 1996. And broad agreement exists about some new goals: helping low-income parents keep jobs and advance through the workforce; expanding participation in programs, such as child care, food stamps, and Medicaid, that support working families; and helping families with the most severe barriers to employment. Consensus also seems to be forming both around the need to restructure the child support system so that families benefit when support is paid and around the need to expand employment and other services to connect or reconnect fathers with their children.

In other areas, divisions will be sharper. Should funding be changed? Should federal time limits and restrictions on education and training be reexamined? Should there be protections against arbitrariness in program administration? Should stronger federal mandates require states to run work programs and impose benefit cutoffs for rules violations? Should government do more to promote marriage? Should other federal programs be block-granted?

In thinking about next steps, it is important not just to describe where we are, but to consider how we got here. If TANF is seen—at this point—as either a success or a mixed story, which of its parts have mattered most? Has devolution itself been a key to TANF's successes or to its limits?

How Has Devolution Mattered?

Many states would surely say that time limits, stronger sanction policies, greater participation mandates, and expanded supports for the working poor have

been crucial to their success. This may be true, but that's a story about policy changes, not about devolution. Each of these changes was already in place in many states before 1996 under the old "waiver" system, whereby states could get permission from Washington to experiment with new policy approaches. Congress could simply have adopted a transitional, time-limited, work-focused system, either with a uniform national approach or with allowances for state discretion in filling in the details of a national policy. Devolution was not essential to accomplish this result.

What, then, has been devolution's role? Recalling the three key features of the law—the funding structure, broad state discretion, and the federal requirements and signaling—we can draw some conclusions with important implications for reauthorization.

Devolution and Funding

The amount and flexibility of money are both important. In 1995–96, many critics of the pending legislation feared a "race to the bottom" if federal standards were eliminated. The concern was not that states were uncaring, but that they were rational and that if funding was inadequate to meet needs, states would cut eligibility and benefits rather than commit new state funds when there was no obligation to do so and no corresponding federal commitment.

The experience has been different, because states have not yet faced a time of inadequate resources. With block grants set to reflect 1994–95 federal spending and caseloads having already fallen by 1996, TANF meant substantial new money for states. The U.S. General Accounting Office estimated that had states participated in TANF throughout 1997, the combined federal and state resources that year would have been \$4.7 billion more than under the old system. Moreover, when states were initially hesitant to spend all available federal funds, members of Congress and others urged them not to leave money unspent while needs remained to be addressed. The result has probably been increased spending on child care,

employment and training, substance abuse treatment, mental health counseling, domestic violence services, transportation, and related services. And under the TANF rules, as cash assistance declined, states could redirect resources to other low-income families, including those who had never received welfare.

Today, state and local administrators regularly say that for the first time in their professional careers, they feel they have significantly more resources to respond to service needs. They clearly value the ability to redirect funds flexibly at the state and local level. So this is probably, in part, a story about the importance of flexibility and discretion, but it's also a story about how it is easier to make choices when resources are expanding. The same discretion would likely be exercised quite differently in a time of scarcity.

For example, one dispute during the 1995–96 debate over welfare reform was whether to have a maintenance-of-effort requirement. Since 1996, state TANF-related spending in most states has hovered at or slightly above the required MOE level. If that level were less, state spending would likely be less. Indeed, had there been no MOE requirement, state spending and programmatic choices might well have been quite different.

Another dispute in 1996 concerned how block grants would work in a recession. We still don't know. But as caseloads fell, states were encouraged and pressured to commit block grants to an array of needs. So if caseloads suddenly began going up, states would be forced to cut other programs, restrict assistance, or commit more state

funds. In such a context, the meaning of state discretion would be very different.

Devolution and Measurement Issues

Fostering accountability and measuring performance in a context of extensive devolution is difficult. During 1996, a popular slogan was that Washington should give states broad flexibility for welfare reform and then hold them accountable for results. It has been much easier to implement the slogan's first half than its second.

Unless one is in favor of devolution for its own sake, the reason for promoting devolution is that it is seen as a better way to advance goals. But knowing whether welfare reform goals are being met requires answering a set of questions. What policy choices were made? How were they implemented? How was funding used? Who received help? What kind of help? How did it matter? What states met goals most effectively? What approaches worked best, and what can they teach about promoting best practices in other states?

Answering these questions is hard, partly because of limits in the federal law and partly because of difficulties inherent in description and measurement in a devolved framework. TANF requires each state to submit a biannual state plan, but requires little content in that plan. Many plans provide only skeletal information about policy choices or how funds are being used. Some private groups have tried to describe state policy choices, but, at best, they describe a limited number of formal policies at a given time. It is much more difficult to provide any sense of how the policies are imple-

mented—for example, how the state's work requirement works in practice, what happens when an applicant walks in the door, what services go to which families, who gets sanctioned and why. And in states that have devolved further to counties or localities, it is sometimes not even meaningful to talk of a state policy. States report only minimal data about broad categories to describe how they are spending \$27 billion in federal and state funds.

As to performance, we can look at state data about caseload declines, but in the absence of common eligibility rules across states, one cannot readily tell to what extent a decline in a state reflects reduced need or contracted eligibility. Five states “won” a bonus for reducing out-of-wedlock births in each of the past two years, though there is little or no evidence that state policies or performance, as opposed to demographic shifts or other factors, explained the winners. The federal government put in place a “high performance bonus” to measure state success in maximizing employment entries, sustained workforce participation, and earnings growth, but again it is unclear why the winners are winning or to what extent performance is being measured.

Some of these problems are not new and would arise whether or not devolution had occurred. Before 1996, state performance was largely judged on accuracy in determining eligibility and payment amounts. Any effort to measure broader outcomes would have posed challenges. But it is important to acknowledge that devolution has entailed real losses in information about state policies, practices, use of funds, and provision of benefits and services.

Devolution and Federal Signaling

Clearly, federal signaling can affect state behavior, and the federal “caseload reduction” signal has had troubling consequences. Critics of the 1996 law feared the elimination of federal protections, as states were given broad discretion in determining whom to assist, how long to provide assistance, and when to terminate assistance. While allowing discretion, the 1996 law was accompa-

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nied by strong messages to states. The strongest message, particularly in the earliest stages of TANF implementation, was the importance of caseload reduction.

States responded to that message. Many of the most troubling stories about state conduct since 1996 concern efforts to cut caseloads. Most states did not cut benefits or directly restrict eligibility, except in areas such as assistance to legal immigrants, where federal law required or encouraged it. However, states and localities did restrict assistance in an array of day-to-day practices, as many jurisdictions have imposed new requirements on applicants for assistance and have reduced and terminated grants when requirements are not met. While most people leaving assistance are working, a large group—about 40 percent—is not. As noted, families who lose benefits without finding work face multiple obstacles to employment. According to the Urban Institute, 71 percent of families who left assistance with no more than one obstacle to employment were working, while only 24 percent of those who left with two or more obstacles were working. In some states, the use of sanctions—grant reductions and terminations for noncompliance with program rules—has accounted for a major part of the caseload decline. Studies have consistently found that sanctioned families have less education and less work history than other families receiving or leaving welfare. A recent Michigan study found that they were also more likely to have been victims of domestic violence and to be mentally ill. A three-city study found

that sanctioned leavers had an 89 percent poverty rate after leaving welfare.

The federal TANF law doesn't force states to sanction mentally ill parents or victims of domestic violence, but it doesn't discourage it either. Some states have begun to recognize that reducing caseloads without providing safeguards causes families with the most severe employment barriers to fall out of the public system. But current law neither requires nor encourages states to work with families to identify and address obstacles to employment. So when a parent misses an appointment or otherwise fails to meet program requirements, there is a federal fiscal incentive to terminate assistance, but not to make additional efforts to work with the family.

While the law stressed the need to reduce caseloads, it provided no clear message to states about what to do after that. It gave no comparable messages about addressing job quality; assuring food stamps, Medicaid, and child care for families beginning work; or using freed-up block grants to improve the economic well-being of low-income families. And where there was no clear federal message, state responses have been far more uneven.

Implications for Reauthorization

Thinking about what devolution has and hasn't accomplished since 1996 suggests some important issues for reauthorization.

First, funding must be adequate. As Congress considers block grant levels and maintenance-of-effort obligations, some will urge spending cuts in light of caseload declines. But we still have no way to judge the extent of need during a recession. And as welfare caseloads have declined, states

have begun addressing the needs of a much larger group of low-income families. If states are expected to pursue this broader mission, they need more, not fewer resources. An essential point, though, is that the story of the past four years is not about devolution per se, but about state and local flexibility amidst ample resources—at least for the goals articulated in 1996. If Congress wishes to sustain the momentum and take further steps to advance the economic well-being of families, the funding must be sustained.

Second, accountability should be strengthened. Debate should focus on how, without unduly restricting state flexibility, to generate better information about state policy choices and use of funds; to develop better data about who is being assisted, how, and with what outcomes; and to develop better measures of state performance. For example, surely state plans should describe what states intend to do, and annual reports should explain what they did. Financial reporting should be detailed enough to give a clear picture of how funds are being used. And a serious effort must be made to reach consensus on outcomes for which it is reasonable to hold states accountable.

Third, signaling is important. When the law clearly signaled the importance of caseload reduction, states responded. Clearer signaling is now needed in two areas: enhancing the economic well-being of working families and working with families with the greatest barriers to employment. The law could advance these goals in many ways without restricting creativity and flexibility—reflecting them in the purposes of TANF, requiring more explicit state plans, developing poverty reduction goals to guide state performance, requiring states to develop explicit benchmarks against which to measure performance.

In short, as Congress faces reauthorization of TANF, the discussion of state flexibility needs to be closely tied to the discussions of resources, accountability, and clear goals of promoting work and enhancing family economic well-being. ■

When the law clearly signaled the need to reduce caseloads, states responded. Clearer signaling is now needed in two areas: enhancing the economic well-being of working families and helping families with the greatest barriers to employment.

Federal and State Roles in Welfare Is Devolution Working?

by Richard P. Nathan
and Thomas L. Gais

The decade of the 1990s was an ambivalent period for American federalism. While the national government strengthened control over economic policies to assure uniformity and help businesses compete nationally and globally, Republican leaders in Congress worked to decentralize many public services, moving control from Washington down to governments "closest to the people," especially state governments, a clear majority of which were headed by Republican governors.

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During 1995–96, then-Speaker Newt Gingrich and other GOP leaders of the 104th Congress made block grants a centerpiece of their “Contract with America.” They supported omnibus block grants for Medicaid, food stamps, and welfare to enhance opportunities for flexible action, especially by state governments. President Clinton consistently vetoed these block grants. Then, in August 1996, on the eve of the presidential election and against the advice of many of his liberal advisers, he signed one—the welfare reform bill—into law.

A Devolution Revolution

The Personal Responsibility and Work Opportunities Reconciliation Act of 1996, the welfare block grant, has fundamentally transformed the roles of national, state, and local governments, as well as thousands of nonprofit and for-profit groups in the field of human services.

The 1996 law is complicated—even, in a sense, schizophrenic. It sets strict federal requirements about work, as well as setting limits on how long families can receive federally aided welfare benefits, now called Temporary Assistance for Needy Families (TANF). But it also encourages states to develop their own welfare reforms by adopting variants on the work-first approach, emphasizing quick engagement in work-related activities and moving people off public assistance.

States not only have accepted but have frequently embraced the goal of getting people into jobs, especially unsubsidized jobs, as quickly as possible. Moving beneficiaries into jobs and reducing caseloads have been critical operational goals going all the way down to local welfare offices. Work participation rates are at historic highs, particularly in states that had already been reforming welfare under federal waivers.

States have used their flexibility to signal the emphasis on work. They have organized new ways to deliver services, the most striking and widespread being linkages to workforce development systems. Many states have demanded that people who apply for cash assistance first search for jobs, cooperate with child support enforcement efforts, or engage in other activities before they qualify for benefits.

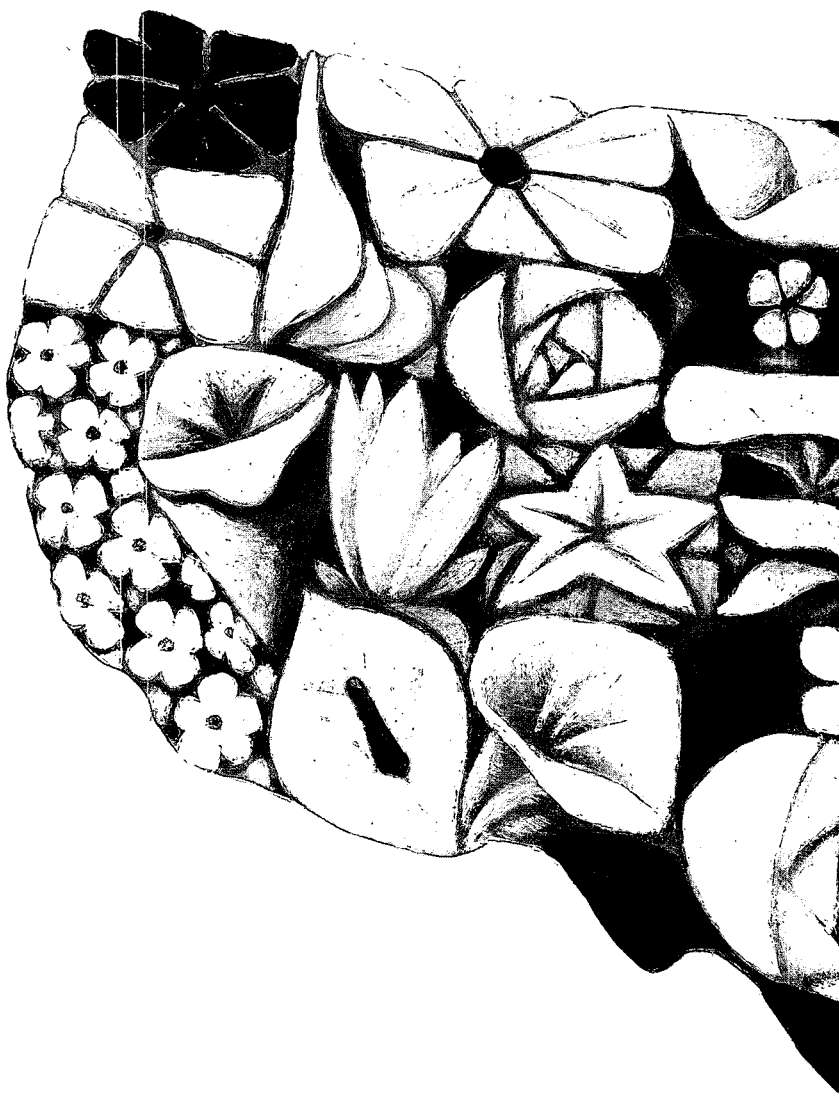
States have increased their services, especially those involving work supports, such as child care and transportation, while greatly reducing their cash assistance. In 1999, the median state spent only about 55 percent of its total “welfare” budget on cash assistance. Most states do not appear to have greatly reduced total spending on social services, and some have actually increased it. The “race to the bottom” that some critics anticipated never took place. One reason may be the design of the block grant—TANF offered states generous funding during a time of economic growth. But another reason may have been the greater political legitimacy accorded to welfare programs because family heads who are working are seen as more deserving of support.

Federal agencies have given states flexibility in using their welfare block grant funds. Rules are loose, permitting states to

assist the heads of working families without making their families subject to federal time limits. The task of defining “work activities” has been turned over to the states. And Washington has not rigorously audited state spending.

State Variations

While all states share the focus on “work first” and the activist approach to reforming their human service systems, many variations exist in tone, structure, spending, and operations. States differ, for example, in their operational goals. Some try



to meet TANF’s performance requirements by engaging a large and growing share of their cash assistance caseloads in work activities. Others reduce caseloads, either by moving beneficiaries into jobs or providing them with alternatives to continuing cash assistance. Although some states are beginning to incorporate other goals in their welfare systems, work participation rates and caseloads remain dominant criteria in day-to-day operations, if for no other reason than that failure to meet the required work participation rates, after factoring in a caseload reduction credit, can exact big financial penalties.

States differ even more in how they try to achieve these goals. Minnesota, Michigan, and Kansas, for example, all emphasize work engagement rather than caseload reduction, but each pursues a different approach. Minnesota emphasizes financial incentives to work. It gives cash assistance to families well over the poverty level by offering generous benefits and disregards. It also supplements earnings with a state earned income tax credit and provides substantial work supports, including a child care program available to many working families. The aim is to encourage poor families to mix earn-

Kansas, like Michigan, uses a service strategy. But rather than focusing on employment needs and services, case managers draw from a mix of services and assessment tools to deal with a wide range of family needs, including learning disabilities, mental health, and substance abuse.

Likewise, states that stress caseload reduction also use varying structures and services. Like Minnesota, Wisconsin offers incentives to which families are expected to respond. But Wisconsin built its reforms around a vision of welfare strongly rooted in the “real world” of work. It stresses independence from cash assistance, while Minnesota mixes cash assistance and earnings to maximize income. Wisconsin gives cash only for actual hours “worked” in approved activities—and without regard to family size. Access to publicly subsidized work is restricted (most families are eligible only for services and in-kind benefits), and services (such as child care and medical benefits) require co-payments. Texas also signals independence from public assistance, in part by emphasizing the costs and inconvenience of cash assistance through its strong anti-fraud efforts and extensive “up-front” requirements.

Some states offer varied services to minimize cash assistance caseloads. West Virginia has tried to keep families from using up their cash assistance by diverting them to food stamps and other sources of support and by offering in-kind benefits (such as dental benefits and clothing vouchers) to help families get by without getting or staying on the welfare rolls. Finally, some states have devolved considerable control and responsibility for developing programs down to localities, in most cases county governments, though sometimes private contractors. In these “compound systems,” like the one in Ohio, several different strategies or variants develop within a single state.

Some of this state-to-state variation seems to grow out of earlier differences among states under the old Aid to Families with Dependent Children (AFDC) program. States that emphasize caseload reduction tend, for example, to be states that offered (and still offer) relatively low cash benefits, while states that focus on work participation tend to be those that provided (and still provide) relatively generous cash assistance. States with decentralized administrative structures under AFDC generally have decentralized structures under TANF. But there are important exceptions. First, goals are not always predictable based on spending and benefit levels. Tennessee, for example, is a low-benefit state that stresses work participation. To motivate clients to engage in work and educational activities, it offers cash bonuses for achieving certain thresholds, such as completing a training or educational program. Second, some states with centralized systems under AFDC, such as Florida and Washington, now give broad discretion to local districts, administrators, or case managers. Third, as states develop distinct service strategies, differences are arising that were not at all evident under AFDC.



SCOTT ROBERTS

ings and assistance and increase total income (and to increase work participation rates among families on the rolls).

Michigan's special “Project Zero” sites tried to reduce to zero the number of families on welfare and without earnings. The state essentially eliminated federal time limits by committing itself to use state funds to assist people beyond the five-year limit. But instead of financial incentives, Michigan uses a wide range of training, employment, and educational services through its workforce development system to move people into jobs and keep them there.

How Is Devolution Working?

The editors of the *Brookings Review* posed the question, “Is Devolution Working for Welfare?” The answer, we believe, is: “It depends on the criteria by which reform is judged.” The five perspectives that follow are merely suggestive of the different criteria, not definitive. Many people viewing the “new world of welfare” have still different, and often shaded, views.

Let a Thousand Flowers Bloom

To the extent that the block grant was expected to be a federalism initiative, an instrument for permitting different welfare reform strokes for different state and local governments, **YES**, welfare reform is working. According to this perspective, state and local preferences and conditions should really matter, not only to take into account economic circumstances and resources that can influence program effectiveness, but also to fashion welfare programs that command support and ownership within a state’s or locality’s political culture. As noted, states and localities already vary widely in how they implement welfare reforms and appear to be moving in ever more distinct directions.

Encourage Work and Reduce the Rolls

In a second view, the controversial 60-year history of AFDC finally pushed political leaders (Republicans and Democrats alike) to act boldly in 1996 “to end welfare as we know it!” If

ending cash support without work requirements is the critical goal, then, **YES**, the new signaling and sanctions of the 1996 welfare reform act are working. The rolls are down more than 50 percent nationally since 1995 (before most major AFDC-waiver reforms were implemented). Employment rates for single mothers with young children grew from 50 percent to 62 percent between 1995 and 1999. Average state work participation rates for adult caregivers on cash assistance reached nearly 40 percent in 1999, much higher than under previous welfare reforms. True, much of this growth in employment and decline in dependence is due to the strong national economy. And only a handful of states (such as Oregon and Wisconsin) have been able to engage nearly all their cases in some sort of work. But even the typical states have seen major and rapid changes in employment both off and on the welfare rolls, and there are good reasons for attributing a sizable share of these changes to the new systems of welfare.

Welfare as a “New Social Bargain”

A third view is that welfare reform was meant to be a new social contract. Poor family heads must work; in exchange, governments will provide services to help them do that. The focus here is on services to help families be self-sufficient. In this view, the answer to whether devolution is working is, **YES AND NO**. Most states have increased spending on work supports, especially child care, child support enforcement, job placement services, and transportation. A few states

State Commissioners Want Six More Years

The 1996 welfare reform law expires on September 30, 2002. Most of the debate in Congress about whether to extend, amend, or end it is likely to happen next year. But right now, there seems to be a consensus left and right politically among state policymakers that the basic structure of the law (balancing requirements and services and providing increased and flexible funds to the states) should continue.

The commissioners of state and local human service agencies—not an

unbiased group, but an enthusiastic one—want a simple extension. At a meeting last December in Austin, Texas, the American Public Human Services Association trumpeted the “extraordinary state success in implementing welfare reform.” They added in a policy paper on welfare reform that this success “provides compelling evidence that the devolution of authority to states was indisputably the correct course of action.”

“TANF cash assistance caseloads,” the report continued, “have declined by

more than 50 percent, however, the number of families receiving supportive work services continues to expand. In many states, families with incomes from 125 percent of poverty to 300 percent of poverty are eligible to receive a range of services such as employment and training, child care, transportation, education, and family and parental training. Over 30 states also offer diversion programs that provide short-term assistance to families in need. States have also expanded their income ‘disregard’ policies, which

means that families can keep more TANF benefits even if they have more earned income, removing one of the many disincentives to work in the former AFDC program. More than 40 states have policies allowing families to keep more in assets while on assistance, in order to support their transition to a life of self-sufficiency.”

Not surprisingly, the commissioners believe that “the TANF block grant should be reauthorized for six additional years without major changes.”

are providing services involving skills development, short-term benefits for poverty prevention, and assistance for hard-to-employ clients burdened with learning disabilities, mental health problems, and substance abuse.

But there are still important limits to this social bargain. The first is resources. Even states that spend a lot on services, such as Minnesota, have waiting lists for child care benefits. Second, states are still struggling to connect welfare agencies to other service bureaucracies. Big differences in information systems, bureaucratic missions, and eligibility requirements divide states' social service agencies and workforce development systems. These issues become ever more daunting as state welfare offices try to draw on agencies involved in mental health, substance abuse, child welfare, and other services to address obstacles to employment. Many states and localities have a long way to go to make services accessible to all who need them.

Reform and the Working Poor

In a fourth view, welfare hasn't changed enough. Many poor and working-poor families aren't getting benefits to which they are entitled—Medicaid, food stamps, child support from absent parents, the earned income tax credit, and child care. The concern is that working-poor families are not connected to social agencies. While many states are working on the problem, critics see their efforts as inadequate: too many people who need aid are not getting it. These critics believe that the new signals of welfare avoidance and work create problems for poor families that are not counterbalanced by providing decent jobs and related work-support services. Also welfare procedures remain complex and burdensome, and busy working families cannot easily comply with them. Other observers complain about a lack of data on what is happening to poor families, especially children and families who aren't getting cash assistance.

Family Formation and Reproductive Practices

Even a cursory reading of the 1996 welfare law produces a jolt, for though the law stresses work, its strongest admonitory purpose is promoting marriage and reducing out-of-wedlock and teen births. And although efforts are being made to change personal behavior, states have not invested much in them. Part of the problem is organizational. Human service and employment agencies have little experience working with family planning clinics and public health agencies. Yet part is political. While state legislative debates over welfare reform showed considerable consensus over the work-related goals, they usually sparked strong disagreement over how to accomplish the family formation objectives. From this perspective on what welfare reform is supposed to accomplish, the answer is **NO**, the 1996 law isn't working.

States and localities already vary widely in how they implement welfare reforms and appear to be moving in ever more distinct directions.

Looking Ahead

In the new world of welfare, two groups need particular attention. One is multi-problem families. The "silos" of governmental bureaucracies make it hard to look across these families' needs and connect work-related human services, such as child care, job aid, transportation aid, and treatment of drug and alcohol problems, with other services, such as dealing with threats of domestic violence and child abuse. Some efforts to integrate services for these families are impressive, but they are few and far between.

The second group needing attention is the working poor—families whose head is working and whose goal is to stay in, and move up in, the labor force. The 1996 welfare reform law allows the use of federal funds to aid adults and children in working-poor families. New efforts under way in many states include informing people about and helping them receive "safety net" benefits (Medicaid and food stamps), as well as providing work-support services like child care, the earned income tax credit, transportation, and job services in a way that avoids stigma and preserves dignity. But, again, progress varies widely by state.

Three things are critical in making the changes required. The first is time. States and localities with the most impressive human service systems—Wisconsin, Michigan, Oregon, Riverside County in California—have been working

on welfare reform since the 1980s or early 1990s. Even so, they still have many implementation issues to address. Other states may take even longer because of larger populations, more internal diversity, more autonomous counties or cities, or less professional bureaucracies.

Second, devolution demands stability in rules and funding. States and localities are making extremely complex institutional connections through contracts and interagency agreements, creating expensive information systems, and implementing vast training and retraining programs—all things that can be upended by unexpected changes in rules and funding. Rapid innovation and thorough planning at the periphery demand continuity at the center.

Third, devolution requires visibility for the whole range of families that the new welfare is expected to serve and at the level where service systems and policies are being formulated. If states and localities are to be accountable not just to the relatively few people on the cash assistance rolls but to the many working-poor and low-income families, more and timely information is needed about the economic status of all such families, even down to the county level. Local information of this sort does not now exist, and thus a major piece of an adaptable and accountable devolution initiative is still largely missing. Diversity may be the name of the game for shaping and implementing social policies in American federalism, but effective diversity needs stability at the top and information at the bottom. ■



by Bruce Katz and
Katherine Allen

Matter

Shifting the Focus of Welfare Reform



ROBERT TRIPPETT/SIPA

strikingly, the decline has been slowest in the nation's urban areas. As a result, the welfare rolls have increasingly concentrated in the cities. Today nearly 60 percent of all welfare cases can be found in 89 large urban counties.

When Congress passed Temporary Assistance for Needy Families (TANF) in 1996, there was much talk of how devolving responsibility for welfare would allow states to tailor their reform strategies to match their own particular needs and circumstances. As reform proceeds, the focus must shift from the states to the places where reform is most urgently needed.

Where Is Welfare?

Since 1997, the Brookings Center on Urban and Metropolitan Policy has tracked welfare caseload declines in the nation's largest cities and urban counties. In our latest study, released last July, we found that while urban welfare caseloads are indeed falling rapidly—faster than most welfare experts predicted at the start of welfare reform—they are declining more slowly than national caseloads. In the 89 urban counties that contain the 100 largest American cities, the aggregate caseload fell 41 percent from 1994 to 1999—more than 10 percentage points short of the 52 percent drop in the national rate. The national caseload has declined by roughly 2.6 million welfare cases since peaking at 5 million in 1994, whereas the aggregate urban county caseload has fallen by almost 1 million cases from a 1994 total of 2.4 million.

As a result of these slower declines, the nation's welfare cases are becoming more concentrated in urban areas. In 1999, the 89 top urban counties, with 33 percent of total U.S. population, accounted for 58 percent of the nation's welfare cases, up 10 percentage points since 1994. Ten urban counties now account for roughly one-third of all U.S. welfare cases. Clearly, urban areas are at the epicenter of welfare reform.

Discussions of welfare reform almost always begin—and sometimes end—by citing the remarkable halving of the national welfare caseload since 1994. Much less frequently noted is that the decline in the caseload has not been uniform nationwide. Most

State and Regional Variations

What explains this spatial concentration? State policy accounts for some of it. While caseloads have generally fallen at different rates across states, two of the largest urban states, California and New York, were slow to implement reform and consequently experienced relatively slow caseload declines—29 percent in both states between 1994 and 1999. The two states accounted for 27 percent of the national caseload in 1994, but 34 percent in 1999. As a consequence of the slower reductions, five of the ten counties with the largest 1999 caseloads were in California. In 1994, only three California counties had made the “top ten” list.

Other states chose to pursue welfare reform efforts much more aggressively and consequently achieved more dramatic declines, even in the cities. Wisconsin, where state-driven reform efforts predated federal reform, saw its caseload shrink by 90 percent between 1994 and 1999. Even heavily urbanized states like Florida and Illinois reduced their welfare rolls faster than the nation as a whole: by 67 percent and 58 percent, respectively. Major cities in these states also watched their caseload fall rapidly: 83 percent in Milwaukee County; 81 percent in Duval County (Jacksonville); and more than half in Dade County (Miami) and Cook County (Chicago) (52 percent and 53 percent, respectively).

This diversity of experience was quite intentional—Congress envisioned welfare reform as 50 distinct state experiments. But state policy doesn't explain everything going on with welfare reform. There is also much diversity within states and regions.

For instance, while Texas rolls fell 52 percent between 1994 and 1999, two of the state's largest urban areas—Houston and El Paso—had very different results. Harris County (Houston) cut its welfare caseload 70 percent; El Paso County, only 36 percent. Within California's relatively slow average decline of 29 percent lies much variation by county. San Francisco and Orange counties both outpaced the state and declined slightly more than 40 percent, while Kern

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County (Bakersfield) declined only 12 percent.

Within regions, too, major differences arise. Caseloads in Wayne County (Detroit) declined by 38 percent between 1994 and 1998. Caseloads in suburban Oakland and Macomb counties, in the same metropolitan area as Wayne County, declined faster, 50 percent and 51 percent respectively. And in the Philadelphia area, the suburbs dramatically outpaced the central county in caseload decline. Between 1994 and 1998, Philadelphia County's caseload declined by 25 percent, while those in suburban Montgomery and Bucks counties fell 47 percent and 51 percent, respectively.

Thus, state policy does not fully explain the concentration of welfare caseloads in urban areas. We expect that a range of other demographic, market, and policy factors also contribute. For example, many of the cities with the highest caseloads—Philadelphia, St. Louis, Baltimore, Richmond—share common elements: a high level of poverty, concentrated poverty within particular inner-city neighborhoods, anemic city economies, extensive decentralization in the metropolitan economy. The Brookings Urban Center has commissioned further research to determine how particular factors or sets of factors affect welfare reform in U.S. cities.

What This Means for Welfare Reform

The urban concentration of welfare families raises some big questions for national and state policymakers (particularly as TANF reauthorization approaches), as well as for those local leaders tasked with implementing welfare reform. Decisionmakers need to consider two things: how federal and state rules affect welfare and related programs and how those programs and policies should be implemented to best meet diverse local realities.

Setting the Rules: TANF Reauthorization and Beyond

To understand the local perspective on welfare reauthorization, the Urban Center is interviewing a range of city

officials and urban practitioners about what changes they would like to see in federal and state welfare policy. Some of the preliminary results of these interviews should come as no surprise. Urban leaders strongly support maintaining current funding under the TANF block grant. They want to retain the current law's extensive flexibility to permit the design and implementation of welfare policies that best fit local circumstances and meet the needs of their clients. They worry about how time limits and other uniform rules will affect jurisdictions facing concentrated poverty or high unemployment (particularly in the event of an economic downturn).

Two other federal (and state) issues stand out for urban leaders. First, local officials are focusing on the "next stage of welfare reform": making work pay for the working poor. Given residential patterns, cities have disproportionately large shares not just of welfare recipients, but of people who have left welfare and of low-income workers generally. While some of these families have just entered the workforce for the first time, others have been struggling for years to make ends meet in dead-end jobs. These households, many with children, have low earnings that keep them near the poverty line. They must struggle to keep up with the rising costs of housing, health care, child care, transportation, and other necessities.

Urban areas thus have an undeniable stake in national policies, such as the earned income tax credit (EITC) or subsidized health insurance, that are designed to make work pay. Federal spending on health care, nutrition assistance, welfare, child care, and associated areas dwarfs the spending on narrow "urban" programs. The EITC in particular has been a broadly effective antipoverty—and pro-work—policy. Annual spending on the EITC should soon surpass that of all programs of the Department of Housing and Urban Development. In 1997, the EITC brought \$122 million of additional income into the city of Baltimore, with 28 percent of all city residents receiving the credit and the central city capturing

half of all EITC funds flowing into the region. Philadelphia took in \$210 million—62 percent of the regional total—with 24 percent of city families receiving the credit.

Yet the urban leaders we interviewed do not believe that making work pay begins and ends with enhancing the earned income tax credit and other federal and state income supports. The hard fact is low-income working families do not have access to mainstream financial relationships and the security (and low cost) that they provide. As Michael Stegman and others have shown, an estimated 10 percent of all American families—including a quarter of all African-American and Hispanic families and of all families with incomes less than \$20,000—do not have bank accounts. It is estimated that as many as 75 percent of welfare recipients are unbanked. These families must rely on an alternative set of financial institutions—check cashers, rent-to-own stores, payday lenders, consumer finance companies—that charge high rates and make it hard for low-income families to build savings. The ability of local leaders to regulate these institutions effectively and open up access to mainstream financial institutions is limited. This is an area clearly within the purview of federal and state intervention.

Second, local leaders consistently cite the fragmented administration of governmental programs as a barrier to effective delivery of services to welfare recipients. Many, but not all, states organize their welfare programs along county lines, either delegating responsibility to the counties, or organizing state staff along county lines. Yet county welfare administration can itself pose a fundamental challenge in connecting recipients with jobs. Local welfare systems are particularly fractured in metropolitan areas like Atlanta, where 20 separate counties operate their own welfare systems, all within a single labor market.

The federal government defines the jurisdictional boundaries of other related programs quite differently, but the same problem of fragmentation often emerges. The federal housing voucher program, for example, is

administered by thousands of local public housing agencies, most of which serve individual cities, towns, and counties. In the Detroit metropolitan area, 31 public housing agencies administer separate voucher programs. The parochial administration of housing (and other federal transit and workforce programs) hinders low-income families from connecting to economic opportunities in the larger metropolitan marketplace.

In a few metropolitan areas, efforts are being made to break down administrative barriers to opportunity. Seattle and King County, for example, administer an integrated approach to welfare-to-work. Illinois has consolidated a large array of services under one super-agency and is experimenting with bundling these services for welfare recipients in distressed urban neighborhoods in Chicago and elsewhere. Minneapolis-St. Paul is increasingly administering the housing voucher program on a metropolitan basis.

The federal and state governments could extend these fledgling activities in several ways. They could set the geography of governance of particular programs at the market (or metropolitan) level. Marge Turner and Bruce Katz have recommended, for example, that metropolitan entities compete to administer the housing voucher program. Or governments could reward collaborations across jurisdictions and across systems. At a minimum, federal competitions for scarce resources should give preference to places and institutions that demonstrate market thinking and holistic action.

Implementing Welfare Reform: Understanding Local Conditions

Getting the larger federal and state rules right is only part of the answer to the urban concentration of welfare families. Welfare reform will be most successful, particularly in distressed areas, if local leaders tailor their approaches to the characteristics of the local welfare popu-

lation and the realities of metropolitan markets.

Although caseload declines have reduced the number of welfare recipients who must be served, those who remain are harder to place into jobs and are less work-ready than the men and women who left the rolls early on. The education level, work experience, and demographics of the caseload all affect how hard or how easy it is to place recipients into jobs. Yet no two welfare populations are alike. Honolulu, for example, where only 18 percent of the caseload are at the lowest skill and literacy levels, may not need to emphasize basic education in its local welfare-to-work program. But the strategy should arguably be different in Dade County,

With welfare policy, the devil is in the details. The diversity of cities and regions means that local officials are in the best position to make many critical policy judgment calls.

where 51 percent of recipients cannot locate an intersection on a street map, fill out a government benefits application, or total costs from an order. In a world where returns to skill are increasing, education and skills not only go a long way toward making work pay, but are essential if welfare recipients are to get and keep jobs in the first place.

Second, a region's employment and residential patterns also matter. In general, metropolitan employment in the United States is moving outward from the city to the suburbs while poverty remains concentrated in central city neighborhoods. Yet the extent of concentrated poverty and employment decentralization as well as the reach of regional transit systems varies from region to region. In Chicago or New York City, for instance, enough jobs exist within the city borders to accommodate recipients moving from welfare to work, and mature city transit systems help families get from city neighborhoods to city workplaces without a car.

In places like Atlanta, however, transportation poses a major barrier to work as jobs move farther and farther out into the suburbs and poor families remain in

central city neighborhoods. As the Urban Institute has shown, three-quarters of new entry-level jobs in the Atlanta metropolis are located more than 10 miles away from neighborhoods where city welfare recipients live. Yet the Metropolitan Atlanta Rapid Transit Authority does not reach the three counties (Cobb, Gwinnett, and Clayton) where the region's jobs are growing fastest. The limited reach of public transit is crippling in a region where only 5 percent of welfare recipients in the core counties have access to a licensed vehicle.

With welfare policy, in short, the devil is in the details. The diversity of cities and regions means that local officials are in the best position to make many critical policy judgment calls. Should local welfare agencies aggressively place recipients in central city jobs or focus on linking them to suburban employers? Should a region invest in a targeted public transit strategy, creating bus lines or van pools linking neighborhoods of concentrated poverty and welfare receipt to suburban job centers or instead pursue strategies to subsidize private car ownership options for welfare families? Local officials who understand the complex interplay between recipient characteristics and service needs, regional labor and housing market dynamics, and the regional transportation infrastructure can best interpret the multifaceted picture of their regions.

A New Focus for Welfare

Although welfare reform has achieved some undeniable successes, especially in reducing caseloads, much remains to be done, especially in America's cities. In 1996 supporters of devolution emphasized that a one-size-fits-all federal welfare policy neglected important differences between the states—Massachusetts is not Tennessee, Iowa is not Oregon, Oklahoma is not Maryland. When the new welfare law is reauthorized in 2002, policymakers, not only in Washington, but also at the state and local level, must craft strategies that reflect the enormous differences between urban areas in the country. The next step in welfare reform is to focus on the cities. ■



Tug-of-War

Can Reform Resolve Welfare Policy's Thorniest Conundrum?

by Gordon Berlin

Whenever Americans are polled about social welfare policies, two consistent themes emerge. Two-thirds or more of those surveyed say they support policies that help “the poor” who cannot help themselves—especially children, the elderly, and the disabled. And about two-thirds say that they do not support “welfare.” Americans consistently want government to lend a hand to those who cannot provide adequately for themselves—but only if it can do so without discouraging work and promoting dependence.

The distinction the public wants policymakers to draw between the deserving and the undeserving poor is often unworkable. Just as one example, the public generally believes that children deserve a helping hand. Yet society's interest in preserving families means that we cannot help “deserving” children without also helping their parents—on whom Americans may be less willing to bestow that adjective.

Distinguishing between people who can work and those who cannot has also been more complicated for policymakers than it may seem. Just as a given individual's employability can change, say, with the onset of illness—a perplexing complication for frontline welfare workers—so too has American society's normative definition of employability evolved over the years. In the 1930s, mothers were not expected to work. Today, work is the norm, even for mothers with small children.

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Yet another conundrum for policymakers involves social welfare policies themselves: efforts to reduce poverty almost always have the unintended effect of reducing work effort. A central puzzle that has confounded policymakers since the English Poor Laws of the 1600s has been how to give money to families to support children without undermining their parents' incentive to work and be self-supporting.

The evolution of U.S. welfare policy over the 20th century reflects these dilemmas. Originally, the aim of cash welfare for families was to provide enough income to enable widows to stay home and raise their children. In 1935, single mothers were grouped with the aged and disabled as people who should not be asked to work. As the population of single parents rose and became dominated by divorced, separated, and never-married mothers—a development that dramatically drove up welfare caseloads in the early 1970s—and as most women with children entered the labor market, welfare policy sought to balance two competing goals: providing cash support while requiring work to reduce parental welfare dependency.

The Welfare Tug-of-War

Since the 1970s, welfare policy has been a tug-of-war between those trying to protect children and families from penury and those who believe that welfare dependency is even worse for families than poverty is. Until the early 1990s, neither side was able to gain an edge. One side pushed to make welfare grants more generous, the other to strengthen the work requirement. Grants grew a little, but not enough, in most states, to match

inflation. Congress tried repeatedly—in 1968, 1971, 1979, and 1988—to bolster work requirements. Nationally, welfare caseloads reflected the stalemate. Between 1975 and 1990, the number of families on welfare in any given month drifted between 3.5 million and 3.9 million or so.

In 1990 things changed. Welfare rolls began climbing, reaching nearly 5 million families by March 1994. Fears that welfare was discouraging work and marriage resurfaced with new urgency. Disillusioned that work requirements had not transformed the welfare state and alarmed by the surging welfare rolls, presidential candidate Bill Clinton promised to “end welfare as we know it.” Two years later the Republican-controlled Congress vowed to end welfare entirely.

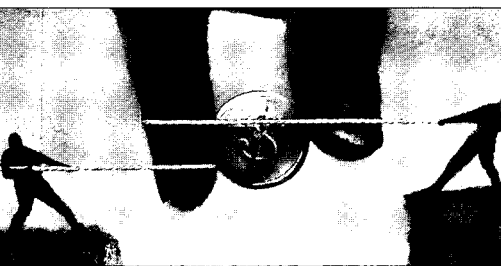
The welfare law that passed in 1996 had two distinct personalities. On the one hand, it imposed time limits on benefit receipt (although states could exempt 20 percent of the caseload from those limits); placed strict work standards on the states, requiring that half of all welfare recipients be working by 2002; and told states to discourage out-of-wedlock child-

dilemmas? What effect are they having on parents’ employment and earnings, on families’ income and poverty status, and on children’s well-being? A large body of solid evidence on the three reform strategies—mandatory welfare-to-work programs, incentives to make work pay, and time limits—is providing early answers to those questions.

Mandatory Welfare-to-Work Programs

Since the late 1960s, when Congress first began to reorient the cash welfare program to focus on work, a cornerstone of policy has been to require welfare recipients to engage in employment and training services to remain eligible for benefits. States have deployed a range of strategies, including short-term job-search programs to help people get work quickly, longer-term education and training programs to augment human capital, and programs that mix elements from both models, sometimes in a fixed sequence, sometimes based on a caseworker’s assessment of skills and needs.

Mandatory welfare-to-work programs of all types have



Time limits and work requirements increased employment, reduced welfare receipt, and saved money, but did not reduce poverty or help children.

bearing, encourage marriage, and sustain two-parent families. On the other hand, it gave states primary responsibility for designing and implementing welfare programs, affording them tremendous flexibility in making those decisions.

Programmatically, what did the states do with their new responsibilities and flexibility? Most did three things. First, they emphasized “work first” (and deemphasized education and training) by requiring virtually all welfare recipients to begin searching for work immediately. Second, in a little noticed but potentially profound development, most states also helped to make work pay by allowing welfare recipients to keep more of their earnings without losing supplemental cash support. Recipients who took jobs could thus boost their incomes by combining low-wage work with welfare benefits. Third, states put limits on the number of months a family could receive welfare benefits, although the nature, enforcement, and thus the reality of those limits varied widely.

How effective were the new policies? By one measure—caseload reduction—they were remarkably effective. After peaking in March 1994, the welfare rolls fell by half, an unprecedented decline. But the downward trend began more than two years before the welfare reform bill passed and several years before the reforms were implemented in most states. Clearly good luck also played a role: the reforms coincided with the longest economic expansion in U.S. history.

How well are the new policies addressing welfare’s historic

consistently increased employment and earnings and reduced welfare payments. Programs that have offered a mix of job search, education, and training typically chalk up the largest earnings gains (about \$1,000 a year averaged across all people subject to a mandate), followed by job-search programs (a \$600 increase), and then education programs (up \$300).

Because earnings gains were coupled with dollar-for-dollar cuts in welfare benefits, welfare-to-work programs typically saved public budgets more than they cost, an unusual accomplishment for social welfare programs. (The education programs have been an exception. Because they cost twice as much as job-search programs, their costs often exceeded welfare savings.)

But the government’s gains typically did not extend to welfare recipients. Their income generally remained unchanged because they lost \$1 in benefits for every \$1 increase in earnings. Furthermore, there is no evidence that parental employment either helped or harmed preschool or elementary school-aged children.

Making Work Pay

Recognizing that people who left welfare for work were making no financial gain despite their increased effort, in the early 1990s a handful of states and localities set out to test policies that rewarded work. Though differing in their mix of benefits and services, all the policies offered monthly cash payments to supplement the earnings of low-income workers. The amount

of the supplement depended on the earnings; payments went only to people who worked.

Results from these tests were encouraging, especially for long-term welfare recipients. Employment, including stable full-time employment, earnings, and income all rose. Because these gains came on top of existing work supplements such as the federal earned income tax credit for the working poor, there appears to be substantial room to make work pay more. Moreover, the employment and income gains led to consistent improvements in the well-being of children aged two to eleven, including higher test scores and better performance in school as judged by teachers and parents, as well as fewer behavioral problems and more positive behaviors.

In large part then, work incentives succeed where welfare-to-work programs do not, increasing income and employment and offering measurable benefits for children. But unlike welfare-to-work programs and because of the supplemental payments to workers, incentive programs usually cost more than they save.

Time Limits

Time limits establish welfare's temporary nature and push recipients to take jobs and leave the rolls to preserve their lifetime months of eligibility. Rigorous studies of time-limited welfare tell a mixed story, confirming neither the right's sunny promises of an end to dependency and its associated ills such as out-of-wedlock parenting nor the left's worst fears of children sleeping in the streets.

Tests of programs resembling the three-pronged strategy most states have put in place—services to help recipients find jobs, cash payments to supplement earnings, and limits on the number of months a family could receive benefits—yielded unsurprising results. Initially, the programs reduced welfare benefits a little and modestly increased employment, earnings, and income. But when recipients ran up against the time limit, their income gains evaporated because welfare benefits could no longer supplement low earnings. The tests revealed little change in material hardship or harm to children, although the follow-up periods were generally short and the coping strategies used by those without jobs or benefits—relying on friends or charities—may not be sustainable for long, particularly in a weak labor market.

The Challenge Ahead

By the latter half of the 1990s, states were implementing a new generation of programs that promised to resolve welfare's deserving- versus undeserving-poor conundrum and end its historic tug-of-war. Time limits and work requirements increased employment, reduced welfare receipt, and saved money, but did not reduce poverty or help children. States that were willing to spend more money to make work pay could help children without reducing work effort by their parents. To maximize the effectiveness of both time limits and incentives, states would have to find a way to reconcile the inherent conflict between the two: time limits push people to leave the rolls quickly, incentives hold them on welfare. They would also have to make decisions about administration (supporting the

working poor within or outside of welfare), targeting (narrowly to welfare recipients or broadly to all working-poor families), generosity (subsidy amount), and messages (ending welfare receipt while supporting the working poor).

Further complicating policymakers' choices, none of the strategies states have pursued have turned out to be panaceas. Most welfare recipients who take jobs remain poor, suggesting that we have far to go in making work pay enough to lift the working poor out of poverty. Of equal concern, even the best programs leave many behind—40 percent or more by some estimates. In short, as welfare caseloads have declined, two new problems have come to the fore: how to buttress the low earnings and precarious job stability of the working poor (formerly the welfare poor) and how to address the myriad health-related barriers to employment of the hard-to-employ left behind on the rolls.

Next Steps for the Working Poor

Today the working poor are supported through an extensive patchwork of programs including the federal and state earned income tax credit programs, food stamps, various medical insurance programs, low-income day care programs, and the like. More than 40 states have also adopted some form of make-work-pay, usually a more generous earned income “disregard” by which the state doesn't count a portion of earnings when calculating eligibility for welfare. Yet no single agency is responsible for helping the working poor get these benefits.

A Welfare-Based Strategy

While state disregards are more generous now than they once were, they differ from the successful make-work-pay programs discussed above in several ways. They are not as generous; they do not require full-time work; they are not marketed extensively; and they operate within the confines of time limits. States can address these problems by separating time-limit and incentive policies, by making incentives more generous when recipients work full-time, and by bolstering outreach. For example, Illinois stops its time-limit clock for someone who works full-time. Given the importance of full-time work for job retention and advancement, states that follow Illinois's lead may also want to make incentive payments more generous. In simulations substituting a larger earnings supplement and a full-time work requirement for the earned income disregards in effect before welfare reform, researchers found that employment, earnings, and income all grew substantially more than they have under states' current earned income disregard policies.

Targeted primarily at welfare recipients, the net cost of such a program would probably be modest. Employment and earnings would likely rise, reducing public costs, and over time the work experience from more stable, full-time employment would likely raise earnings.

A Universal Strategy

A second way to make work pay more for poor workers is to use the TANF surplus and other federal funds to expand the earned income tax credit at the federal or state level. That

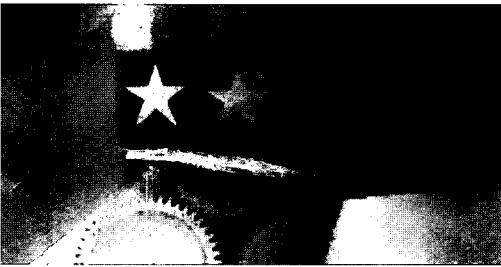
would be more equitable than targeting welfare recipients only. But it might not increase employment and earnings as much because a universal strategy would have to provide less generous benefits and because many of those eligible for the expanded EITC would already be working, some full-time. Indeed, higher-earning families, particularly those who work a lot of overtime, may reduce their work effort somewhat. One solution would be to limit further increases in the EITC to full-time workers. But under that strategy employers would have to report wages and hours worked for all employees monthly, rather than quarterly, as now.

An Advancement and Retention Strategy

A third option is to try new approaches to career advancement and retention, including incumbent worker training and more intensive education and vocational training. A new generation of experiments involving employers, community colleges, and community-based organizations, just now getting under way, will build knowledge about what works in this area.

treatments is possible, but their effectiveness is unknown. For example, in the mental health area strong clinical evidence confirms the efficacy of antidepressant drugs and counseling. But little evidence exists about their efficacy in everyday settings for a broad cross-section of low-income people. This new generation of treatment programs will have to incorporate employment services and goals, address cultural differences that may make it less likely for low-income populations to take prescribed medications regularly, and redesign treatments to fit welfare's more urgent time frame.

A second strategy would be a job of last resort. In a 1970s supported-work experiment, a subgroup of participants did reasonably well in supported work but could not graduate to private-sector employment. A similar group may well exist within the current welfare system. Policymakers will need to experiment with variations on the supported-work or sheltered-worksite model where the requirements of the job increase over time, with peer support built into the model along with specific strategies to address mental, physical, or



Work incentives succeed where welfare-to-work programs do not, increasing income and employment and offering measurable benefits for children.

Next Steps for the Hard-to-Employ Left-Behind

Welfare recipients who cannot take advantage of welfare-to-work programs to find jobs and leave the rolls are likely to have even less education, fewer skills, and less work experience than the typical welfare recipient. Further complicating matters, surveys indicate that they are more likely to be clinically depressed and to have learning disabilities, health barriers (or children with such barriers), and substance abuse problems.

Because today's social welfare system is not well equipped to address these disparate barriers, it will have to develop new partnerships with service providers who are. Yet we know little about what works, whether existing programs are adequate, or whether special programs for welfare recipients are necessary. To build this knowledge, policymakers would need to pursue three strategies.

One is to build new models for diagnosis and treatment. The first step would be to develop assessments that high-school-educated eligibility specialists can use to screen and identify applicants with a high probability of mental health, substance abuse, and learning disability problems. These assessments would have to be built into the application process for recipients reluctant to admit to such problems. Once problems are identified, recipients would be referred for a formal clinical assessment by trained professionals.

The next challenge is to select a treatment program appropriate for the kind and severity of the problem. A range of

other health and learning-related issues. Some people may be able to move into private-sector jobs over time. Others will exhaust their benefit eligibility and may require continued access to such work sites.

The third strategy is to define exemptions and reconsider the fraction of recipients who can be exempted. Federal law allows states to exempt up to 20 percent of the welfare caseload from time limits, but few states have defined those exemptions. According to anecdotal evidence from ethnographic research, a significant pool of people do not qualify for disability benefits but cannot meet the current welfare system's work standards. A surprisingly common example is people undergoing treatment for cancer.

Both Sides Can Win

Make-work-pay policies allow policymakers to help poor children by increasing their families' income without discouraging parental responsibility. And mandatory participation and time limits help reconcile a welfare system designed to support women when they did not work with new norms by which everyone is expected to work. Strategies to get these policies into better alignment, coupled with new efforts to increase the generosity of supports for the working poor while learning more about job advancement programs and about what works for the hard-to-employ, may just have what it takes to end welfare's historic tug-of-war. ■

Wedding Bell Blues

Marriage and Welfare Reform

by Wade F. Horn

When Congress passed historic welfare reform legislation in 1996, it had three goals: replacing welfare with work, decreasing the number of children born out of wedlock, and promoting marriage. Progress toward the first goal has been impressive. Caseloads have dropped dramatically as millions of previously welfare-dependent heads of households have entered the paid labor force.

But what about the other two goals? How much progress has been made in reducing out-of-wedlock childbearing and promoting stable two-parent, married households? The honest answer is: not much. U.S. marriage rates generally continue to decline as both age at first marriage and cohabitation outside of marriage continue to increase. The number of children born out of wedlock increased from 1.26 million in

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1996 to 1.3 million in 1999. The share of live births that are out of wedlock grew too, from 32.4 percent in 1996 to 33 percent in 1999.

Marriage: A Social Good under Attack

Although some observers question the propriety of promoting marriage, countless studies demonstrate that children, on average, fare better in continuously married households than in any other family structure. Married adults, women as well as men, are happier, healthier, and wealthier than their unmarried counterparts. And communities with higher marriage rates evidence fewer social pathologies, including crime, educational failure, and poverty, than do those with lower marriage rates. Congress got it right when it said that one goal of welfare reform ought to be to promote marriage.

That does not mean that some marriages aren't awful for both children and adults. Domestic violence and child abuse, unfortunately, are not strangers to married households. In such cases, children and adults are better off if the marriage dissolves than if it stays together. Still, domestic violence and child abuse are less likely in married than nonmarried households. Marriage may not confer absolute protection against these social ills, but it offers better protection than any other family arrangement.

Why has such a demonstrable personal and social good become so weak? First, the past 40 years have seen an extraordinary shift in cultural norms concerning sex, marriage, and childbearing. The advent of effective birth control in the 1960s separated sex from marriage. The entry of more and more women into the paid labor force made childbearing outside of wedlock more economically feasible. And the increasing acceptability of cohabitation outside of wedlock separated living together from marriage as well. As a result, there is simply less social pressure today to get and stay married than there was just two generations ago.

Second, when couples do get married, public policy frequently punishes them economically. The U.S. tax code,

for example, contains a marriage penalty for high-earner, two-income couples. And the earned income tax credit penalizes lower-wage married couples. Moreover, welfare rules have frequently made it harder for married households than for single-parent households to get benefits. Although few couples sit down and calculate the possible economic effects of getting married, there is a sense, especially within low-income communities, that getting married means you lose "stuff." Couples may not be able to calculate exactly how much "stuff" they stand to lose, but they know marriage, at least financially, is a bad deal.

And they are right. According to calculations by Eugene Steuerle of the Urban Institute, a single mother working full-time at a minimum-wage job who marries a man working full-time at \$8 an hour stands to lose \$8,060 in cash and noncash welfare benefits. Under such circumstances, the wonder is not that few low-income couples marry, but that any do.

What Have States Tried?

Why haven't states made more progress in encouraging marriage as one way to reduce welfare dependency? The answer is that no state has yet made a serious effort. The lesson: when it comes to promoting marriage, doing nothing doesn't seem to work.

To be fair, most states have dismantled at least some of the anti-marriage policies in the old Aid to

When it comes to promoting marriage, doing nothing doesn't seem to work.



Families with Dependent Children (AFDC) program. Most, for example, have removed the 100-hour rule that made low-income married couples, but not single-parent households, ineligible for welfare if one adult in the household worked more than 100 hours the previous month, even if the earnings were not enough to lift the family out of poverty. Many states also have eliminated the AFDC rule requiring married households, but not single parents, to wait 30 days after the principal wage earner lost work before receiving benefits.

Certainly removing these anti-marriage policies helps. But without doing away with means-testing altogether, it is virtually impossible to remove all the financial disincentives to marriage inherent in welfare. Moreover, eliminating disincentives is not the same thing as promoting marriage. And thus far no state has made any serious effort to promote marriage among welfare recipients. Indeed, most states hesitate even to mention the "M" word.

State officials explain their reluctance by saying that not much is known about how to promote marriage, especially in low-income or welfare-dependent families. On this score, they are largely correct. Absent sound research, many states have simply avoided trying.

Officials also cite confusion as to whether the Temporary Assistance for Needy Families (TANF) program requires states

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to promote marriage. Although one clearly stated purpose of TANF is “to end dependency of needy parents on government benefits by promoting job preparation, work and *marriage*” [italics added], the law also urges states to “encourage the formation and maintenance of two-parent families.” But does “two-parent families” mean married families or simply families with two involved parents, whether or not they are married or even living together?

This lack of clarity has allowed states to skirt the issue of marriage. In fact, late in 1999 the Clinton administration issued *A Guide on Funding for Children and Families* through the TANF program. The guide broadly interpreted two-parent families to mean not only married families, but also unmarried, separated, and divorced parents, whether living together or not. As a result, states can say they are fulfilling the purposes of TANF by, for example, encouraging visits by noncustodial parents.

This state of affairs may be changing. A recently released evaluation of a welfare reform effort in Minnesota suggests we may know a little something about promoting marriage through welfare policy after all. The Minnesota Family Investment Program (MFIP) was designed primarily to encourage work, and on that score, it did pretty well—substantially increasing employment and earnings among families previously dependent on welfare relative to a control group on a more traditional welfare program. But MFIP did more than promote work. It also changed incentives so that low-income married couples no longer were penalized financially for getting or staying married. In addition to eliminating the 100-hour rule, MFIP also allowed married couples to earn more money than they could under AFDC before starting to lose benefits—a change that MFIP planners hoped would discourage low-income married couples from divorcing to maintain welfare benefits as family income rose.

The results, if not definitive, are encouraging. MFIP participants who were married when the program got under way were 38 percent more likely to be married three years later than

those randomly assigned to the traditional AFDC program (67 percent of MFIP participants, as against 48 percent of the AFDC participants, stayed married). And MFIP participants who began as single parents were more likely to be married three years later than those in the traditional program (11 percent as against 7 percent).

It should be noted that MFIP’s success both in reducing divorce and in increasing marital formation was limited to long-term welfare recipients and did not extend to new applicants. And its effect on increasing marital formation, though statistically significant, was rather small.

Still, the MFIP results suggest that changing welfare incentives can increase the likelihood that low-income parents will get or stay married. That these effects were limited suggests that more must be done to increase marital formation among welfare recipients than simply removing financial disincentives.

The Next Steps

Several states have announced plans to do just that. Arizona’s state legislature recently established a Marriage and Communication Skills Commission to encourage community-based organizations to train married couples and couples contemplating marriage in communication and relationship skills. It also appropriated \$2.9 million from the TANF block grant for a variety of services to needy families, including \$75,000 for vouchers to enable married or cohabiting parents whose income is less than 150 percent of the federal poverty guidelines to attend a marriage skills training course, \$1 million for community-based marriage and communication skills programs, and \$75,000 to develop, produce, and print a marriage handbook.

Louisiana’s legislature recently asked the governor to establish a Council on Marriage to “monitor, develop, and evaluate policy, programs, curricula, publicity, and delivery of services to families to assure that government does not undermine or discourage the institution of marriage.” If established, the council also will help the Department of

Social Services and the Department of Health and Hospitals coordinate efforts to “promote two-parent families anchored in marriage for the rearing of children.”

In perhaps the most ambitious statewide, pro-marriage effort, Governor Frank Keating plans to launch a TANF-funded \$10 million initiative to reduce Oklahoma’s divorce rate by one-third by 2010. A steering committee with representatives from religion, education, business, government, the legal profession, service providers, and the media will lead the initiative.

Proposed activities include training and educating caseworkers and public health nurses within state agencies to promote marriage, creating a media campaign to highlight marriage-building skills, establishing a Marriage Scholar-in-Residence at an Oklahoma university, evaluating programs within state agencies to implement marriage-neutral or marriage-friendly changes, and eliminating policies that create disincentives for marrying. Oklahoma’s Department of Human Services, for example, will combine the income of cohabiting, but unmarried, couples to determine a household’s eligibility for welfare. Combining cohabiters’ income will likely decrease their benefits, thus discouraging cohabitation and presumably encouraging marriage.

Several states have also added mild financial incentives for marriage. Mississippi and North Dakota now disregard the income of a stepparent in determining a household’s eligibility for welfare for the first six months after the couple marries. And Tennessee disregards the income of a stepparent if it is below 185 percent of the need standard for the household, including the stepparent. All three rules, however, encourage forming a stepfamily and apparently do not apply if the mother marries the child’s biological father.

Only one state provides a clear financial incentive for marrying the biological father. Since last July, West Virginia has been adding a flat \$100 payment to a family’s monthly benefits if the parents are married and both live in the household and are named in the assistance

check. Although not enough to offset the large financial penalties inherent in other means-tested welfare programs, the payment is the first unambiguous cash incentive for marriage.

Even these efforts, however, are quite timid given the severity of the marriage problem. Consequently, while recognizing the paucity of well-documented strategies for effectively promoting marriage, Congress should nevertheless use the upcoming reauthorization of TANF to require states to build support for marriage into their welfare reform efforts.

What Congress Should Do Next

First, Congress should make clear that the intent of the 1996 law was to promote marriage, not cohabitation or visits by nonresident parents. When it comes to improving the well-being of children, neither cohabitation nor visitation is the equivalent of marriage.

Second, states should be required to indicate in their state plan how they will use TANF funds to encourage marriage. Anyone who has ever spent any time in a state welfare office can attest to the striking absence of posters, literature, or conversation promoting marriage—and to the not-so-subtle message that marriage is neither expected nor valued. Requiring states to lay out their plans to promote marriage within the context of welfare will force them to take more seriously the idea of promoting the formation and stability of two-parent, married households.

Third, Congress should reduce the financial disincentives for marriage. The law that established the TANF block grant allowed, but did not require, states to eliminate the anti-marriage rules in the old AFDC program. Although many states have done so, others have not. Congress should require states to eliminate the anti-marriage rules. It should also examine financial penalties for marriage in other programs, especially the earned income tax credit, and reduce or eliminate them.

Fourth, Congress should implement incentives for marriage. It could, for example, suspend collection of child support arrearages owed the state should the biological parents get married. It also

could require states to follow West Virginia's lead and provide a cash bonus to single mothers on welfare who marry the child's biological father.

More dramatically, Robert Rector of the Heritage Foundation suggests providing a woman at high risk of bearing a child out of wedlock a \$5,000 cash payment if she bears her first child within marriage, to be disbursed in \$1,000 annual payments over five years as long as she remains married. Although controversial, the proposal makes an important point. Marriage is in trouble, especially in low-income communities. If we are serious about restoring marriage, public policy will have to do more than simply strive toward marriage neutrality by removing existing financial disincentives for marriage. It needs to show that it values marriage by rewarding those who choose it.

Fifth, Congress should fund programs that enhance the marital and parenting skills of high-risk families. If marriage is to improve the well-being of children, parents must be able both to sustain a marriage and to be good parents—skills that many men and women lack. Some lack these skills because they grew up in broken homes

It is naive to think that a welfare program designed to encourage marriage will succeed within a broader cultural context that regularly and consistently denigrates marriage.

without positive role models. Others had inadequate or abusive parents themselves. To help couples sustain a marriage and be good parents, Congress should provide resources to religious and civic groups to offer meaningful premarital education to low-income couples applying for or on public assistance.

Finally, Congress should begin to rebuild cultural norms surrounding marriage. It is naive to think that a welfare program designed to encourage marriage will succeed within a broader cultural context that regularly and consistently denigrates marriage. The next phase of welfare reform also must begin to change the broader social-cultural understanding of marriage and its importance to children, families, and communities. One way to do so is to earmark some TANF funds for a broad-based public awareness campaign to publicize the importance of marriage and the skills necessary to form and sustain healthy marriages.

Marriage is our most vital social institution, the seedbed from which healthy children and, ultimately, a healthy society spring. It is no accident that communities with lower marriage rates have higher rates of social pathology. Marriage matters—to children, adults, and communities.

Unfortunately, most states have been reluctant even to mention the word, let alone do something to encourage more of it. When it comes to promoting the formation and stability of healthy, mutually satisfying marriages, however, doing nothing hasn't worked. Perhaps doing something might.



LLOYD WOLFE



NORWALK TRANSIT DISTRICT

by Mickey Kaus

TANF and "Welfare" Further Steps toward the Work-Ethic State

The first essential point about welfare reform is that its success shouldn't be measured by this year's income distribution charts. For most proponents of reform, the goal was, as Bill Clinton put it, to "break the culture of poverty" in America's ghettos—to take a culture characterized by welfare dependence, a high rate of births out of wedlock, high male unemployment, and crime and replace it with a new, more virtuous social dynamic, in which every

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family would be expected to have a breadwinner, and consequently young men and women would make better choices about schooling, marriage, and childbearing. The test of reform's success, then, is whether in the long run the largely urban, largely minority, welfare-reliant "ghetto poor" culture is absorbed into the mainstream American culture—whether "underclass" neighborhoods improve, employment rises, the out-of-wedlock birth ratio declines, the streets become safer, and children do better in school.

Reform proponents didn't expect this to happen overnight. They were even perhaps willing to tolerate some short-term sacrifice of income among would-be welfare recipients if that was the price of a long-term cultural transformation. And there are some encouraging signs (the topping-out of the black illegitimacy ratio, the decline in teen births, the increase in female labor force participation, even the gentrification of former ghetto neighborhoods such as Harlem) that the desired change is under way.

That the 1996 reform *also* appears to have helped boost incomes in the immediate short run for most of the poor (see Ron Haskins's article elsewhere in these pages) is also excellent news. But it remains true that a money test of welfare reform is a test imposed on the legislation by its opponents. The notion that *the* indicator of success is the number of Americans whose measured income (counting available government benefits) has been raised above some multiple of the poverty line—a widespread view propounded, most effectively, by the Center for Budget and Policy Priorities—is excessively narrow in several senses. It ignores the short term-long term trade-offs of the sort just discussed. It assumes that individual income is the overwhelming determinant of quality of life. And, most important, it arguably ignores the long-term goal of liberal politics, which I'd contend isn't "more equal" income or "more equal" consumption, but fully equal respect and dignity—social equality. This is not a material concept. Ensuring a decent standard of living is one way to help achieve it, but it's not the only way, and not necessarily sufficient. Work is another, necessary prerequisite: Americans who leave welfare for work gain the respect our society reserves for workers, even if they gain not a cent of income.

Politically, of course, low-income workers are a much more appealing constituency than welfare recipients. That was another goal of welfare reform, at least among Democrats: to transform the antipoverty debate into a debate about the working poor. The left has now discovered the political advantages of this transformation—without, of course, embracing the cause of the transformation, namely the 1996 reform. Still, now that new political possibilities have been opened up, what should be done to build on the 1996 law?

The Work-Ethic State

The American "welfare state" is not really a welfare state—in the American sense of "welfare"—at all. Most government benefit programs have been "work-tested" since their inception. Workers' compensation goes to workers. Unemployment compensation is conditioned on prior participation in the

labor force. Social Security pensions go only to citizens who've worked a sufficient number of "quarters." The earned income tax credit, which has ballooned into a large new entitlement, is by definition available only to earners.

It's no accident that these big programs are work-tested; otherwise they wouldn't have been popular enough to get passed by Congress. The two great exceptions to the general work test, Aid to Families with Dependent Children ("welfare") and food stamps, are exceptions that "prove the rule," as lawyers like to say. AFDC only came into being as an "entitlement" through a back-door process that involved a minimum of democratic approval by Congress and a maximum of intervention by the federal bureaucracy and the courts. Food stamps have an independent farm-state constituency. They've probably never been as unpopular as AFDC, but neither have they ever been as widely accepted and unstigmatized as Social Security pensions. Since the food stamp program persists, with only a partial work test, while AFDC's successor, the Temporary Assistance for Needy Families (TANF) program, is haphazardly work-tested—and subject to a complex five-year "time limit"—it makes sense to discuss these two exceptions first.



From TANF to a Guaranteed Job?

Given the booming economy, it's been relatively easy for governors to push would-be aid recipients into the labor market and take credit for the resulting caseload decline. But policymakers will eventually face some harder choices. If there is a recession, recipients may start to pile up on welfare again. What are the states going to do about this, if the labor market isn't providing ready employment for the unskilled? Even without a recession, the time limits built into the 1996 law may force a change of course. It's true that the time limits are riddled with loopholes. (For example, states can declare that they are paying for additional years of aid with their own funds—a bookkeeping change.) But the publicity given the time limit has created an expectation, in the mind of the general public as well as of potential TANF recipients, that *something* is supposed to happen after five years.

There would seem to be three basic options. First, states can simply back off, using the existing loopholes to keep recipients on welfare even after five years. This would avoid any harshness, but also signal recipients that the time limit was not seri-

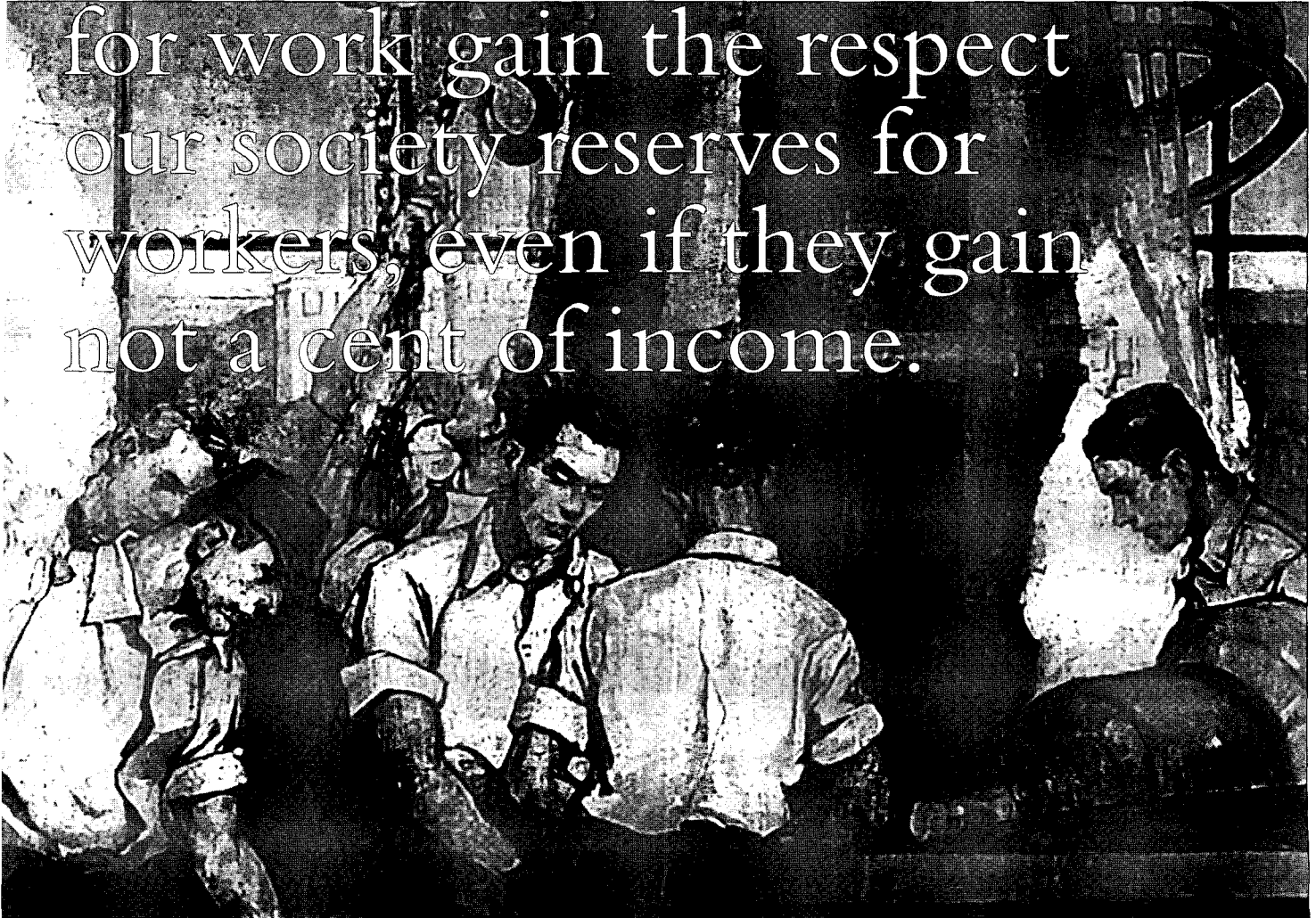
ous. And it would accept the presence of a permanent class of long-term dependents.

Second, states could send the opposite signal by strictly enforcing a time limit. The result might well be visible hardship—an increase in homelessness among families, for example—that would discredit welfare reform and the state governments in question.

The third, obvious alternative is to offer a community service or “workfare” job to everyone who hits the limit. This was, roughly, the approach taken in President Clinton’s original welfare reform proposal. It’s also the approach taken in Wisconsin—except that in Wisconsin the time limit is not five years, but effectively zero years. Wisconsin’s W-2 program offers community service jobs (rather than cash welfare) immediately to those who can’t find private-sector work. And Wisconsin’s program has been stunningly successful. Caseloads have fallen more than 90 percent since the late 1980s, and about 84 percent since 1993. Fewer recipients have wound up in workfare jobs than expected, allaying fears that workfare would turn into a large-scale “make-work” enterprise.

One of the great disappointments of the 1996 reform, so

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far, is that few jurisdictions have emulated the workfare-based Wisconsin approach. The time limit may change that. The mere threat of time limits seems to have altered the political battlefield, so that soon it may be the left that lobbies for mandatory workfare jobs, as a humane alternative to time-limited cutoffs. Unless the right moves the goal posts entirely and abandons workfare, agreement should be possible.

What do you call a system that doesn't guarantee anyone a welfare check, but does offer a "community service" job? You could call it a guaranteed jobs program. Perhaps liberals should tactfully avoid saying that phrase out loud, but the underlying issue it raises remains: should a workfare job be an entitlement?

It depends on what the word means. "Entitlement" is, after all, a term of art that connotes a bundle of logically distinct program features. First, entitlements are available on demand to those who qualify for them. Second, they are funded automatically (at the federal level) as demand rises, bypassing the normal congressional appropriations process. And, third, they

thus provide an automatic source of countercyclical spending that is directed at states with the greatest need. For lawyers, though, "entitlement" is also a magic word that creates a constitutional "property" interest, triggering a series of due process rights (and possibly equal protection rights).

In all except the last sense, I'd argue a workfare job is better off being an entitlement than not being an entitlement, although a period of state experimentation may be required before that conclusion is sensibly arrived at. But the last sense of "entitlement" is the most important to many advocacy groups, since an "entitlement" is a program easily tied up in litigation. The nub here may not be so much the procedures (hearings, cross-examination, and the like) required before an entitlement can be taken away from an individual, but the unsettled equal protection and uniformity issues. One county makes recipients clean the streets, while another lets them work indoors for fewer hours. One city provides two formal hearings while another provides only one informal session.

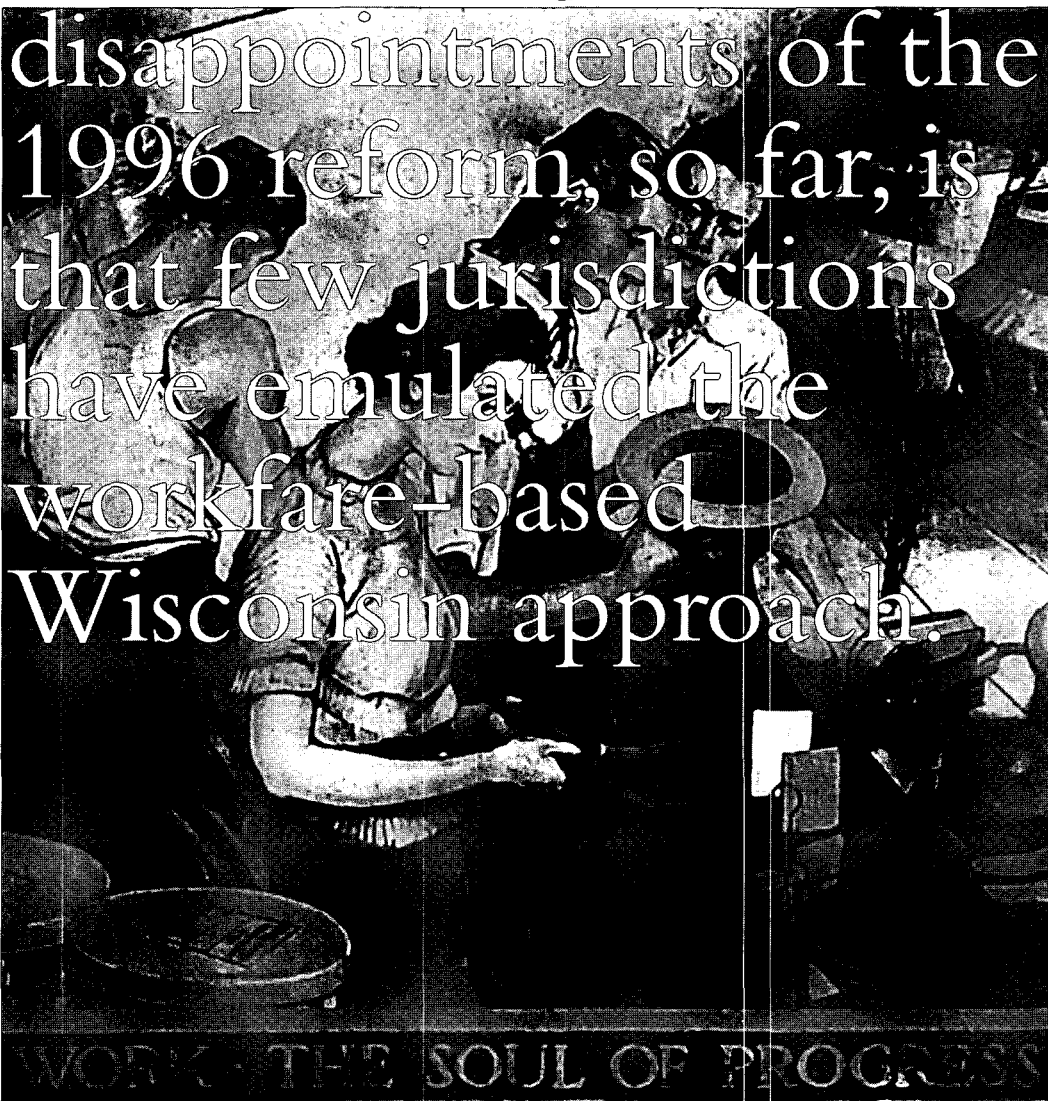
One fires TANF recipients from their workfare job after a single fistfight or drug offense, another gives a second or third chance.

A federal court system that can find impermissible inequality in the disparate treatment of hanging Chad can probably find impermissible inequality in this sort of variation, if what is at stake is the "property" right of an entitlement. For this reason—because it helps prevent legal aid lawyers and government employee unions (which tend to oppose workfare) from tying state officials in knots—the congressional denial of entitlement status to TANF was probably well-advised. I'd argue workfare jobs, even if guaranteed in practice, should likewise be freed from the nightmare of fairness that lawyers can create around "entitlements."

Food Stamps

Periodic attempts at work-testing food stamps make that program sound, in theory, less dole-like than TANF. In practice, the current food stamp work provisions go only part-way toward incorporating this benefit into a "work-ethic

One of the great disappointments of the 1996 reform, so far, is that few jurisdictions have emulated the workfare-based Wisconsin approach.



state.” For able-bodied adults without dependents between ages 15 and 50—the so-called ABAWDs—no-strings food stamps have, since 1996, been theoretically limited to three months every three years. But recipients are not required to work—they can participate in approved “training” instead. Even this requirement assumes training “slots” are made available to all recipients by the states. And states can exempt large groups of recipients, including those in areas with 10 percent unemployment.

For mothers with dependent children, the crucial loophole exempts those with a child less than 6 years old from having to work—effectively protecting almost 60 percent of TANF families. No wonder that, during the 1996 reform debate, food stamps were widely considered a reassuring safety-net for recipients who failed to comply with work requirements.

Because the food stamp program largely survived the 1996 reform, many liberals have seized on it as a platform for getting money to the poor—this time repackaged as a “work support” for those making the transition from welfare to work. President Clinton more or less went along with this campaign, even offering bonuses to states that did the most to “encourage food stamp applications.” But the campaign seems badly misguided to me. Food stamps don’t fit into a “work-ethic state” because they remain a form of welfare—they’re a cash-like benefit available to most single mothers *whether or not they work*. If many of the poor are reluctant to sign up for food stamps because they retain the stigma of welfare, it’s hard to say they are wrong. A low “take-up” rate is a good sign, indicating the presence of a work ethic, not a bad sign.

Attempting to sanitize a non-work-tested entitlement like food stamps sends the opposite signal from the one sent by the 1996 reform. If enough such welfare-like “work supports” become available, it will be possible to live (albeit uncomfortably) on the supports without the work. This isn’t a flip suggestion; in many Southern states the food stamp benefit already dwarfs the TANF benefit. And one lesson of welfare reform, even in high-cost cities like New York (where some welfare families routinely take the “sanction” of losing part of their check), seems to be that people are able to get by on far less formal income than previously thought. Of course, that amounts to the worst of both worlds—people living miserably in a state of dependence.

If incomes of workers need “supporting,” better to do it through a program like the earned income tax credit that is restricted to workers, or by an increase in the minimum wage. Nor would it be hard to create a separate food-stamp-like program that was actually, in practice, available only to those who join the labor force.

Earned Income Tax Credit

The message of welfare reform, then, is arguably this: “Programs to help poor workers should be restricted to workers.” The popular EITC stands as an ongoing rebuke to those social theorists who’ve adopted the familiar, competing slogan—that “programs for the poor make poor programs.” The EITC is a program for the poor, and it works pretty well! The reason is that it vindicates the value Americans rightly place on work.

Both political parties have attempted, over the years, to expand the EITC, until it costs more (around \$30 billion a year) than TANF-style “welfare.”

The big question regarding the EITC—and other cash-like subsidies and supplements restricted to workers—is no longer how to preserve them against attack. The question is how high they can possibly be boosted before toxic side effects set in. Right now the EITC offers a bonus of \$3,888 to a working parent with a two-child family who earns the minimum wage (about \$10,700 a year). At some point—probably before the EITC becomes as large as the wage itself—the tax credit might have a strong disincentive effect on work as recipients decide that they can now make do with less labor. At some other point, the number of subsidies hinging on work might become so large that the idea that they are in any sense “earned” becomes politically insupportable. Also, increases in the EITC are becoming more expensive, since benefits must be phased out slowly as incomes rise, with the result that the tax credit becomes available at ever-higher income levels, extending into the more-populous middle class.

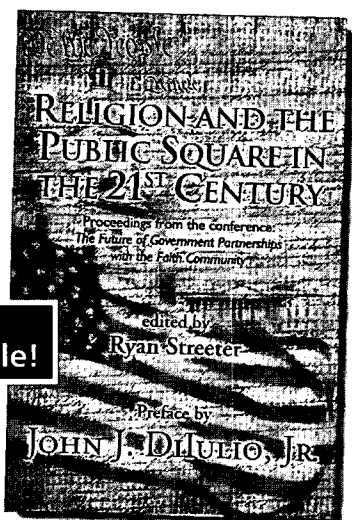
No Turning Back Now

Likewise, work-tested subsidies other than the EITC—such as those for day care, transportation, and even health care—might all, at some point, produce serious disincentive effects. What if that point comes too soon to achieve “social equality”? What if an increased minimum wage, plus the maximum feasible bundle of work-tested subsidies, is still too little, in and of itself, to permit a dignified life—especially in a society many of whose citizens are taking home heretofore unimaginable amounts? That wouldn’t necessarily be the end of the pursuit of social equality. I’ve argued elsewhere that society could still try to achieve that goal directly, by providing common social services (such as a uniform national health care system) to all or imposing common obligations (such as national service) on all—rather than indirectly by empowering the working poor to compete as individual consumers in the bazaar.

Even that might not work. It’s possible that the distribution of compensable human talents is so unequal that attempts to achieve any sort of fundamental equality of respect or dignity within a free economy are doomed. But I doubt that’s true, and I’m confident the vast majority of Americans doubt it’s true. It seems just as possible that maximum work-tested redistribution alone might do the trick. I’m not sure that even now most low-income American workers worry all that much about whatever social inequality flows from their financial status. Do our citizens really think that the average Wall Street stockbroker is better than the minimum-wage cashier down at the dry cleaner? Now give the cashier a \$20,000 income, and health care, and decent schools, and safe, mixed neighborhoods....

The American left, by promoting no-strings entitlements and denying the power of the work ethic, hit on the one plan guaranteed to disrupt this optimistic picture—by creating a class of isolated, stigmatized, dependent poor. The 1996 reforms took a major, perhaps decisive, step to dissolve this threat to equality. It’s no time to turn back. ■

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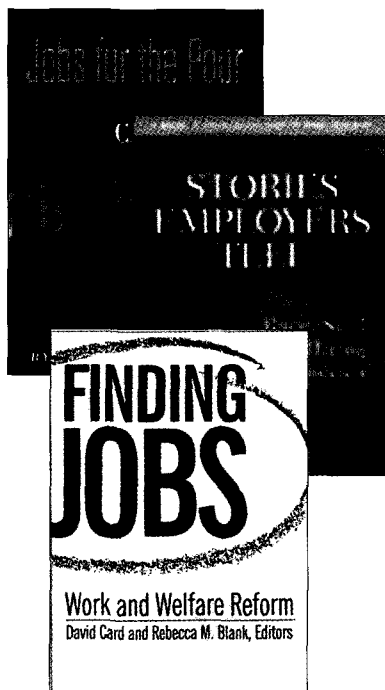
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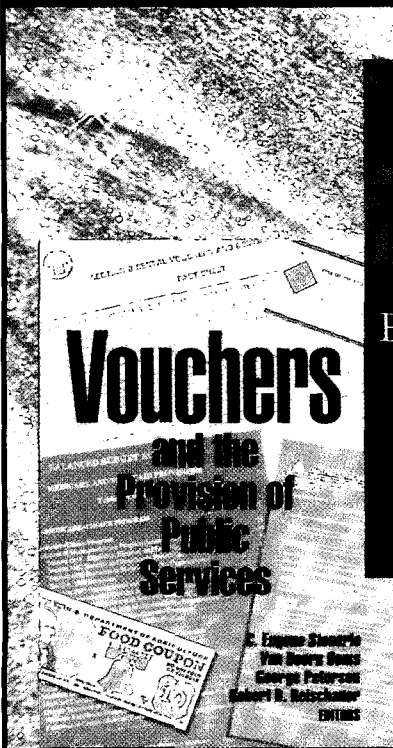
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